Financial Statements and Independent Auditor's Report Micro Finance Organization City Credit LLC

31 December 2017

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Grant Thornton

Independent auditor's report

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To the owners of MFO City Credit LLC

Qualified Opinion

We have audited the financial statements of Micro Finance Organization of City Credit JSC (the "Company"), which comprise the statement of financial position as of 31 December 2017 and 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2017 and 31 December 2016, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

The fair value of collateral property less costs to sell, is assessed by the Company only at the time of issuance of the loan, and is not updated thereafter. Valuation is performed by Company's loan specialists, based on comparison with similar properties listed on publicly available sources. Due to lack of reliable and updated property valuations, performed by qualified independent appraisers, we were unable to obtain sufficient appropriate evidence regarding the present value of cash flows from foreclosure of collaterals held by the Company for impaired loans, and therefore, we were unable to determine whether any adjustments might have been found necessary in respect of the amount recognized as allowance for impairment losses on loans and advances to customers reported in the statement of financial position as of 31 December 2017 and 31 December 2016, and in respect of impairment charges reported in the statement of profit or loss and other comprehensive income for the years then ended.

The Company recognizes fines and penalties on overdue loans on cash basis, in accordance with the requirements of the Tax Code of Georgia. This approach is not in accordance with the accrual basis of accounting and constitutes a departure from IFRS. Due to the nature of the accounting records of the Company, we were unable to determine the amount of the adjustments that are necessary in respect of balances of loans and advances to customers reported in the statement of financial position as of 31 December 2017 and 31 December 2016, and in respect of income from penalties reported in the statement of profit or loss and other comprehensive income for the years then ended.

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 (the "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 those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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 skepticism 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, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Vakhtang Tsabadze	Ketevan Ghambashidze
Managing Partner	Registered Auditor

11 June 2019

Statement of profit or loss and other comprehensive income

In Georgian lari	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Interest and similar income	6	1,019,153	1,510,325
Interest and similar expense	6	(264,664)	(344,545)
Net interest income		754,489	1,165,780
Fee and commission expense		(810)	(1,005)
Net fee and commission		(810)	(1,005)
Loss from foreign currency operations		(19,539)	(6,652)
Other income	7	224,236	596,819
Impairment charge	11	(7,696)	(48,497)
Staff costs		(149,663)	(172,600)
Depreciation of property and equipment		(19,114)	(19,842)
Amortization of intangible assets		(2,562)	(5,901)
Other expenses	8	(363,382)	(165,942)
Profit before income tax		415,959	1,342,160
Income tax expense	9	(85,602)	(197,873)
Profit for the year		330,357	1,144,287
Other comprehensive income		-	-
Total comprehensive income for the year		330,357	1,144,287

The financial statements were approved on 11 June 2019 by:

Otar Tsanava	Nana Rurua
Director	Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 41.

Statement of financial position

In Georgian lari	Notes	As of 31 December 2017	As of 31 December 2016	As of 1 January 2016 (unaudited)
Assets				
Cash and cash equivalents	10	524,413	230,705	265,434
Loans and advances to customers	11	6,457,537	7,021,137	5,787,932
Property and equipment	12	44,572	69,886	74,240
Intangible assets	13	-	2,562	8,463
Deferred income tax assets	9	47,221	44,823	59,799
Other assets	14	621,313	271,493	119,690
Total assets		7,695,056	7,640,606	6,315,558
Liabilities and equity				
Loans and borrowings	15	2,944,517	2,898,908	2,486,362
Current income tax liabilities		45,410	69,600	107,712
Other liabilities	16	669,112	966,438	1,160,111
Total liabilities		3,659,039	3,934,946	3,754,185
Equity				
Charter capital	17	500,000	500,000	500,000
Retained earnings		3,536,017	3,205,660	2,061,373
Total equity		4,036,017	3,705,660	2,561,373
Total liabilities and equity		7,695,056	7,640,606	6,315,558

The financial statements were approved on 11 June 2019 by:

Otar Tsanava
Director

Nana Rurua
Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 41.

Statement of changes in equity

In Georgian lari	Charter capital	Retained earnings	Total
Balance as of 1 January 2016 (unaudited)	500,000	2,061,373	2,561,373
Profit for the year	-	1,144,287	1,144,287
Total comprehensive income for the year	-	1,144,287	1,144,287
Balance As of 31 December 2016	500,000	3,205,660	3,705,660
Profit for the year	-	330,357	330,357
Total comprehensive income for the year	-	330,357	330,357
Balance as of 31 December 2017	500,000	3,536,017	4,036,017

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 41.

Statement of cash flows

In Georgian lari	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Profit for the year	330,357	1,144,287
Adjustments for		
Amortization and depreciation	21,676	25,743
Impairment expenses on loans and advances to customers	7,696	48,497
Foreign currency translation net (gains)/loss	151,361	(411,981)
Interest income	(1,019,153)	(1,510,325)
Interest expenses	264,664	344,545
Income tax expense	85,602	197,873
Cash flows used in operating activities before changes in operating assets and liabilities	(157,797)	(161,361)
(Increase)/decrease in operating assets		
Decrease in loans and advances to customers	1,575,057	228,623
Increase in other assets	(349,820)	(151,803)
Decrease in other liabilities	(76,805)	41,222
Net cash flow from/(used) in operating activities before income tax	990,635	(43,319)
Income tax paid	(112,190)	(221,009)
Net cash from/(used in) operating activities	878,445	(264,328)
Cash flows from investing activities		
Purchase of property and equipment and intangible assets	(3,521)	(15,488)
Proceeds from sale of property and equipment	9,721	-
Net cash from/(used in) investing activities	6,200	(15,488)
Cash flow from financing activities		
Loans received	35,116	260,564
Loans repaid	(181,482)	(452,331)
Dividends paid	(228,125)	(228,125)
Net cash flow used in financing activities	(374,491)	(419,892)
Net increase/(decrease) in cash and cash equivalents	510,154	(699,708)
Cash and cash equivalents at the beginning of the year	230,705	265,434
Exchange differences on cash and cash equivalents	(216,446)	664,979
Cash and cash equivalents at the end of the year	524,413	230,705

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 41.

Notes to the financial statements

1 Principal activities

MFO City Credit was incorporated in Georgia on 3 December 2009 as a limited liability company.

The Company's main activities are mortgage and consumer collateralized loan extensions. The Company's main office location and registered address is Kazbegi Ave. #26, Tbilisi, Georgia. The main office performs accounting and general administration functions. In addition to this main location, the Company has two additional retail branches in Tbilisi (Gldani and Varketili).

2 Business environment

Georgia continues to undergo political and economic changes. As an emerging market, Georgia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments.

Management of the Company believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Company.

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.

3.3 Functional and presentation currency

Functional currency of the Company is the currency of the primary economic environment in which the Company operates. The Company's functional currency and presentation currency is the Georgian lari ("GEL"), since this currency best reflects the economic substance of the underlying events and transactions of the Company. The financial statements are presented in Georgian lari, unless otherwise stated.

3.4 New standards and interpretations adopted

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Although the new standards and amendments described below are applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Company.

- *Disclosure Initiative (Amendments to IAS 7)*
- *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)*
- *Annual Improvements to IFRSs 2014-2016 Cycle – various standards (Amendments to IFRS 12.*

3.5 Standards and interpretations not yet applied by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Company has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement.

Management does not anticipate a material impact on the Company's financial statements from these Amendments, they are presented below.

IFRS 9 Financial Instruments **(2014)**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

In October 2017, the IASB issued Prepayment Features with Negative Compensation (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Company will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date.

The adoption of the new standard may have a material impact on the opening balance of the Company's equity as of 1 January 2018.

The above assessment is preliminary because not all transition work has been finalised. Especially, The Company has not yet completed revision of its accounting processes and internal controls changes in accordance with IFRS 9, the refining and finalising its models for ECL calculations and the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Company finalises its first financial statements that include the date of initial application.

Classification – Financial assets and financial liabilities

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by- investment basis.

A financial asset is classified into one of these categories on initial recognition.

It eliminates the existing IAS 39 categories of held to maturity, loans and receivables, available for sale and financial assets at fair value through profit or loss.

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

– Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.

– Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

– Held-to-maturity investment securities measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

– Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.

– The majority of the equity investment securities that are classified as available-for-sale under IAS 39 will be measured at FVOCI under IFRS 9.

The classification and measurement assessment as at 31 December 2016 may not necessarily represent the

impact on the Company's financial statements as at 1 January 2018 because IFRS 9 requires the business model assessment to be undertaken based on the facts and circumstances that exist at the date of initial application, which will be 1 January 2018 for the Company.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

– the amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI; and

– the remaining amount of the change in the fair value will be presented in profit or loss

Impairment – Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The Company will recognize loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

– financial assets measured at amortised cost
– financial assets measured at fair value through other comprehensive income
– lease receivables
– contract assets
– loan commitments to provide a loan at a below-market interest rate
– financial guarantee contracts

Under IFRS 9, no impairment loss is recognised on equity investments.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas,

– assessing whether the credit risk of an instrument has increased significantly since initial recognition; and

– incorporating forward-looking information into the measurement of ECLs;

– Definition of default.

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

– PD;

– loss given default (LGD); and

– exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that leverage regulatory models. They will be adjusted to reflect forward-looking information as described below.

The most significant impact on the Company's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model. Loss allowances on unsecured products with longer expected lives such as overdrafts and credit cards will be most affected by the new impairment requirements.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

– The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

– The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

- The determination of the business model within which a financial asset is held.

- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

- The designation of certain investments in equity instruments not held for trading as at FVOCI.

- For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

If a debt investment security has low credit risk at 1 January 2018, then the Company will determine that the credit risk on the asset has not increased significantly since initial recognition.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing *IAS 18 Revenue*, *IAS 11 Construction Contracts*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The Company's management have not yet assessed the impact of IFRS 15 on these financial statements.

IFRS 16 Leases

IFRS 16 presents new requirements and amendments to the accounting of leases. IFRS 16 will require lessees to account for leases 'on-balance sheet' by recognizing a 'right-of-use' asset and a lease liability.

IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17's approach to lessor accounting;
- introduces new disclosure requirements.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided IFRS 15 Revenue from Contracts with Customers is also applied. The Company's management have not yet assessed the impact of IFRS 16 on these financial statements.

Other standards

The following amended standards and interpretations are not expected to have significant impact on the Company's financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28 (effective from 1 January 2018).
- Amendments to IAS 40 Investment Property: Transfers of Investment Property (effective from 1 January 2018).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective from 1 January 2018).
- IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019).

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Company and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within “interest and similar income” and “interest and similar expense” in the statement of profit or loss and other comprehensive income using the effective interest method.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided.

4.2 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in the own equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

The exchange rates at year-end used by the Company in the preparation of the financial statements are as follows:

	31 December 2017	**31 December 2016**
GEL/1 US Dollar	2.5922	2.6468
GEL/1 EUR	3.1044	2.7940

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Changes in corporate income tax effective from January 1, 2023

Effective January 1, 2023, there will be significant amendments to the Tax Code of Georgia, related to introduction of a new model for corporate income taxation.

The new model (the “Estonian model of corporate taxation”) implies zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the company’s profit before tax, regardless of profit retention or distribution. As a result of changes, starting 1 January 2023 financial institutions in Georgia will pay corporate income tax on earnings distribution (profit distributed to shareholders as dividends) and on individual transactions that may be considered as indirect distribution of earnings (benefits, gifts, payments, non-arm’s length cross-border transactions with related parties, expenses not related to economic activities, etc).

The corporate income tax arising from distribution of dividends is recognized as an expense in the period when dividends will be declared, regardless of the actual payment date or the period for which dividends are distributed. The tax rate is 15/85 of the amount of net distribution.

For tax payable on any dividends declared and paid in 2023 and later, from earnings accumulated prior to 2022, tax credit is available for corporate income tax paid on undistributed earnings under the previous model.

According to the amended concept of corporate income taxation, there will be no temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Therefore, deferred tax assets and liabilities, as defined in IAS 12 *Income Taxes*, are not formed subsequent to 1 January 2023.

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and balances on commercial bank accounts, and amounts due from other banks, which can be converted into cash at short notice, including highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.5 Financial instruments

The Company recognizes financial assets and liabilities when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

When financial assets and liabilities are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

After initial recognition all financial liabilities, other than liabilities at fair value through profit or loss (including held for trading) are measured at amortized cost using effective interest method. After initial recognition financial liabilities at fair value through profit or loss are measured at fair value.

The Company classified its financial assets into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss. A financial asset is classified in this category if acquired for the purpose of selling in the short-term or if so designated by management from the initial acquisition of that asset.

In the normal course of business, the Company enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the statement of profit or loss and other comprehensive income.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments, which arise when the Company provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Company with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

4.6 Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (“loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Criteria used to determine that there is objective evidence of an impairment loss may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, breach of loan covenants or conditions, deterioration in the value of collateral, the probability that they will enter bankruptcy and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost 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 credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of profit or loss and other comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any

impairment loss is the current effective interest rate determined under the contract. The Company may measure impairment on the basis of an instrument's fair value using an observable market price.

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 the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

Impairment allowances of financial assets have been identified in the financial statements on the basis of existing economic conditions. The Company is not able to predict how conditions may change in Georgia, and what impact these changes may have on the adequacy of the impairment allowance of financial assets in future periods.

Renegotiated loans

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

4.7 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Company either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that

takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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, and the difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

4.8 Leases

Finance – Company as lessee

The Company recognises finance leases as assets and liabilities in the statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Finance – Company as lessor

The Company recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. The arrangement is presented within loans and advances. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

When the Company takes possession of the collateral under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

Operating – Company as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included in other operating expenses.

Operating - Company as lessor

The Company presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

4.9 Property and equipment

Property and equipment ("PPE") are recorded at historical cost less accumulated depreciation. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs.

When an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	Useful life (years)
Furniture and fixtures	5
Vehicles	5
Computer and other equipment	1.5-5
Other	5

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

4.10 Intangible assets

Intangible assets include computer software.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 6 years. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

4.11 Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost and fair value less costs to sell.

4.12 Borrowings

Loans and borrowings are recognized initially at fair value, net of issuance costs associated with the borrowing. The difference between fair value and nominal value is recognized in profit or loss, except when the borrowing was received from the owners. In this instance the difference between fair value and nominal value is recognized in equity as additional capital. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value recognized in profit or loss over the period of the borrowings on an effective interest basis. Interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance expenses, except for the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which are capitalized as part of that asset.

4.13 Equity

Charter capital

Company's charter capital is defined by the Company's charter. Changes in the Company's charter (including changes in charter capital, ownership, etc.) shall be made only based on the decision of the Company's

shareholders. The authorized capital is recognized as charter capital in the equity of the Company to the extent that it was actually contributed by shareholders to the Company.

Retained earnings

Include retained earnings of current and previous periods.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

4.14 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The most significant areas of judgements and estimates with regards to these financial statements are presented below:

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 19).

Useful Life of PPE

Useful life evaluation of PPE is the result of judgement, based on the experience with similar assets. Future economic benefits are embodied in assets and mainly consumed along with usage. However, such factors as operational, technical or commercial depreciation often lead to decrease of asset's economic benefit. Management evaluates the remaining useful life according to the asset's current technical condition and estimated period, during which the Company expects to receive benefits. For the evaluation of remaining useful life are considered the following main factors: expectable usage of assets, depending on the operational factors and maintenance program, that is depreciation and technical and commercial depreciation arising from the changes in the market conditions.

Related party transactions

In the normal course of business the Company enters into transactions with its related parties. These transactions are priced predominantly at market rates. 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.

Impairment of loans and receivables

The Company reviews its problem loans and advances at each reporting date to assess whether there are objective criteria of depreciation. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

6 Interest and similar income and expense

In Georgian lari	**2017**	**2016**
Loans and advances to customers	1,014,880	1,508,315
Interest income on bank deposits	4,273	2,010
Total interest and similar income	1,019,153	1,510,325
Interest expense on borrowings	(264,664)	(344,545)
Total interest and similar expense	(264,664)	(344,545)

7 Other income

In Georgian lari	**2017**	**2016**
Foreign currency translation net gains on non-trading assets	-	411,981
Fines and penalties received	173,251	183,973
Income from different banking operations	50,827	-
Other income	158	865
Total other income	224,236	596,819

8 Other expenses

In Georgian lari	2017	2016
Foreign currency translation net losses on non-trading assets	151,361	-
Rent expenses	130,857	123,405
Fuel, maintenance, insurance and other expenses	51,149	9,351
Advertising costs	12,745	13,155
Communications	5,719	6,686
Utility services	5,322	4,738
Office supplies	2,591	2,104
Repair and maintenance expenses	947	2,324
Taxes, other than income tax, duties	585	774
Other	2,106	3,405
Total other expense	363,382	165,942

9 Income tax expense

In Georgian lari	2017	2016
Current tax expense	88,000	182,897
Deferred tax charged/(credited)	(2,398)	14,976
Total income tax expense	85,602	197,873

The corporate income tax in Georgia is levied at the rate of 15% (2016: 15%). Differences between IFRS and statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 15%.

Numerical reconciliation between the tax expenses and accounting profit is provided below:

In Georgian lari	2017	Effective rate (%)	2016	Effective rate (%)
Profit before tax	415,959		1,342,160	
Income tax at the rate of 15%	62,394	15.00	201,324	15.00
(Non-taxable income)/Non-deductible expenses	23,208	5.58	(3,451)	(0.26)
Income tax expense	85,602	20.58	197,873	14.74

Deferred tax calculation in respect of temporary differences:

In Georgian lari	2016	Recognized in profit or loss	2017
Loans and borrowings to customers	44,507	1,154	45,661
Property and equipment	316	1,244	1,560
Total deferred tax assets	44,823	2,398	47,221
Total deferred tax liability	-	-	-
Net deferred tax asset	44,823	2,398	47,221

In Georgian lari	2015	Recognized in profit or loss	2016
Loans and borrowings to customers	58,523	(14,016)	44,507
Property and equipment	1,276	(960)	316
Total deferred tax assets	59,799	(14,976)	44,823
Total deferred tax liability	-	-	-
Net deferred tax asset	59,799	(14,976)	44,823

Deferred tax adjustments effective after January 1, 2023

On 1 January 2023 amendments to the Tax Code of Georgia will be entered into force, affecting the model of corporate income taxation for financial institution (refer to note 4.3). As a result of changes, starting from 1 January 2023 Financial institutions will pay corporate income tax on earnings distribution (profit distributed to shareholders as dividends) and on individual transactions that may be considered as indirect distribution of earnings (benefits, gifts, payments, non-arm's length cross-border transactions with related parties, expenses not related to economic activities, etc). According to the amended concept of taxation, there will be no temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases.

10 Cash and cash equivalents

In Georgian lari	2017	2016
Cash on hand	363	636
Cash in commercial bank accounts	32,372	174,666
Deposits for less than 90 days	491,678	55,403
Total cash and cash equivalents	524,413	230,705

11 Loans and advances to customers

In Georgian lari	2017	2016
Loans to customers	6,761,948	7,317,852
Less allowance for loan impairment	(304,411)	(296,715)
Total loans and advances to customers	6,457,537	7,021,137

The management of the Company considers that no impairment reserve shall be recognised for loans as far as all loans issued are secured by adequate collaterals and if the borrower fails to cover the loan, then the Company will recover the loan by selling related collateral.

As of 31 December 2017 the weighted average effective interest rate on loans and advances to customers is 37.76 % (2016: 35.66 %).

As of 31 December 2017 the carrying amount of repossessed assets was Georgian lari 346,447 (2016: Georgian lari 132,460). The Company intends to sell these assets in a short period.

Reconciliation of allowance account for losses on loans and advances by economic sectors is as follows:

			2017
In Georgian lari	Consumer	Mortgage	Total
Loans	601,586	6,160,362	6,761,948
Less allowance for loan impairment	(215,076)	(89,335)	(304,411)
Net loans	386,510	6,071,027	6,457,537

			2016
In Georgian lari	Consumer	Mortgage	Total
Loans	472,063	6,845,789	7,317,852
Less allowance for loan impairment	(205,141)	(91,574)	(296,715)
Net loans	266,922	6,754,215	7,021,137

Reconciliation of allowance account for losses on loans and advances by class is as follows:

In Georgian lari	Individuals	Total
At 1 January 2017	296,715	296,715
Charge for the year	7,696	7,696
Amounts written off	-	-
Recoveries	-	-
At 31 December 2017	304,411	304,411
Individual impairment	304,411	304,411
Collective impairment	-	-
	304,411	**304,411**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**323,477**	**323,477**

In Georgian lari	Individuals	Total
At 1 January 2016	390,164	390,164
Charge for the year	48,497	48,497
Amounts written off	(141,946)	(141,946)
Recoveries	-	-
At 31 December 2016	**296,715**	**296,715**
Individual impairment	296,715	296,715
Collective impairment	-	-
	296,715	**296,715**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**325,911**	**325,911**

Loans and advances by customer profile may be specified as follows:

In Georgian lari	2017	2016
Individuals	6,674,924	7,228,996
Limited liability companies	87,024	88,856
	6,761,948	7,317,852
Less allowance for loan impairment	(304,411)	(296,715)
Total loans and advances to customers	6,457,537	7,021,137

Loans to individuals comprise the following products:

In Georgian lari	2017	2016
Mortgage loans	6,089,903	6,773,846
Car loans	310,232	181,619
Other	274,789	273,531
Total loans and advances to individuals (gross)	6,674,924	7,228,996

At 31 December 2017 and 2016 the estimated fair value of loans and advances to customers approximates it carrying value (see Note 19.1).

Maturity analysis of loans and advances to customers are disclosed in Note 20.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in Note 21.

12 Property and equipment

In Georgian lari	Furniture and fixtures	Vehicles	Computer and other equipment	Leasehold improvement	Other	Total
Cost						
Cost at 1 January 2016	17,636	76,085	27,983	7,048	1,377	130,129
Additions	-	15,090	375	-	23	15,488
At 31 December 2016	17,636	91,175	28,358	7,048	1,400	145,617
Additions	-	-	3,521	-	-	3,521
Disposals	-	(11,198)	-	-	-	(11,198)
At 31 December 2017	17,636	79,977	31,879	7,048	1,400	137,940
Accumulated Depreciation						
At 1 January 2016	17,132	7,088	23,439	7,048	1,182	55,889
Charge for the year	322	16,867	2,621	-	32	19,842
At 31 December 2016	17,454	23,955	26,060	7,048	1,214	75,731
Charge for the year	166	17,223	1,693	-	32	19,114
Disposals	-	(1,477)	-	-	-	(1,477)
At 31 December 2017	17,620	39,701	27,753	7,048	1,246	93,368
Carrying Value						
At 31 December 2016	182	67,220	2,298	-	186	69,886
At 31 December 2017	16	40,276	4,126	-	154	44,572

Fully depreciated items

As of 31 December 2017 fixed assets included fully depreciated assets in amount of Georgian lari 91,058 (2016: Georgian lari 40,438).

Restrictions on title of fixed assets

As of 31 December 2017 and as of 31 December 2016, the Company does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

13 Intangible assets

In Georgian lari	Acquired software licenses	Total
Cost		
At 1 January 2016	39,615	39,615
Additions	-	-
Disposals	-	-
At 31 December 2016	39,615	39,615
Additions	-	-
Disposals	-	-
At 31 December 2017	39,615	39,615
Accumulated Amortisation		
At 1 January 2016	31,152	31,152
Amortisation charge	5,901	5,901
At 31 December 2016	37,053	37,053
Amortisation charge	2,562	2,562
At 31 December 2017	39,615	39,615
Carrying Value		
At 31 December 2016	2,562	2,562
At 31 December 2017	-	-

14 Other assets

In Georgian lari	2017	2016
Advances and prepayments	25,996	29,573
Other assets	6,950	-
Repossessed property	588,367	241,920
Total other assets	621,313	271,493

Details of financial and non-financial assets obtained by the Company during the year by taking possession of collateral held as security against loans and advances as of 31 December are shown below:

In Georgian lari	2017	2016
Property	566,671	241,920
Vehicles	21,696	-
Total repossessed assets	588,367	241,920

The Company’s policy is to pursue timely realisation of the collateral in an orderly manner. The Company generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

15 Loans and borrowings

In Georgian lari	Current		Non-current	
	2017	2016	2017	2016
Unsecured borrowings from related parties	2,944,517	2,898,908	-	-
	2,944,517	2,898,908	-	-

The borrowings are from related parties. The agreement has credit line nature and bears a nominal interest rate of 14% per annum. At each year-end (31 December) parties (borrowers and lender) renegotiate loan terms (duration, interest rate, payment schedule, etc.).

All loans are in US dollar.

16 Other liabilities

In Georgian lari	2017	2016
Accounts payable	-	31,762
Dividends payable	642,297	870,422
Total other financial liabilities	642,297	902,184
Tax payable, other than income tax	9,366	45,811
Advances received	17,449	18,443
Total other non-financial liabilities	26,815	64,254
Total other liabilities	669,112	966,438

17 Charter capital

The charter capital consists of Georgian lari 500,000 (2016: Georgian lari 500,000), which belongs to four physical persons:

- Gocha Ratiani – 25%
- Bakur Tsurtsumia – 25%
- Mamuka Tsurtsumia – 25%
- Levan Kikacheishvili – 25%

18 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include owners, members of Company's management as well as other persons and enterprises related with and controlled by them respectively.

The Company does not have an ultimate controlling party.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In Georgian lari

	2017	2016
	Shareholders and parties related with them	**Shareholders and parties related with them**
Statement of financial position		
Loans and borrowings		
At 1 January	2,898,908	2,486,360
Increase	385,344	1,218,506
Decrease	(339,735)	(805,958)
At 31 December	2,944,517	2,898,908
Statement of profit or loss and other comprehensive income		
Interest expense on borrowings	264,664	344,545

Compensation of key management personnel was comprised of the following:

In Georgian lari	2017	2016
Salaries and bonuses	44,000	44,125

19 Fair value measurement

Financial and non-financial assets and liabilities measured at fair value in the statement of financial position are presented below. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

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

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

19.1 Financial instruments that are not measured at fair value

The table below presents the fair value of financial assets and liabilities not measured at their fair value in the statement of financial position and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

In Georgian lari	As of 31 December 2017				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	524,413	-	524,413	524,413
Loans and advances to customers	-	6,457,537	-	6,457,537	6,457,537
FINANCIAL LIABILITIES					
Borrowings received	-	2,944,517	-	2,944,517	2,944,517
Other liabilities	-	642,297	-	642,297	642,297

In Georgian lari	As of 31 December 2016				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	230,705	-	230,705	230,705
Loans and advances to customers	-	7,021,137	-	7,021,137	7,021,137
FINANCIAL LIABILITIES					
Borrowings received	-	2,898,908	-	2,898,908	2,898,908
Other liabilities	-	902,184	-	902,184	902,184

20 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 21.6 for the Company's contractual undiscounted repayment obligations.

In Georgian lari							2017
	Demand and less than 1 month	**From 1 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
ASSETS							
Cash and cash equivalents	32,735	491,678	524,413	-	-	-	524,413
Loans and advances to customers	2,293,942	1,189,418	3,483,360	2,974,177	-	2,974,177	6,457,537
	2,326,677	1,681,096	4,007,773	2,974,177	-	2,974,177	6,981,950
LIABILITIES							
Borrowings received	-	2,944,517	2,944,517	-	-	-	2,944,517
Other liabilities	-	642,297	642,297	-	-	-	642,297
	-	3,586,814	3,586,814	-	-	-	3,586,814
Net position	2,326,677	(1,905,718)	420,959	2,974,177	-	2,974,177	3,395,136
Accumulated gap	2,326,677	420,959		3,395,136	3,395,136		

In Georgian lari							2016
	Demand and less than 1 month	**From 1 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
ASSETS							
Cash and cash equivalents	175,302	55,403	230,705	-	-	-	230,705
Loans and advances to customers	1,011,978	1,880,338	2,892,316	4,054,784	74,037	4,128,821	7,021,137
	1,187,280	1,935,741	3,123,021	4,054,784	74,037	4,128,821	7,251,842
LIABILITIES							
Borrowings received	-	2,898,908	2,898,908	-	-	-	2,898,908
Other liabilities	-	902,184	902,184	-	-	-	902,184
	-	3,801,092	3,801,092	-	-	-	3,801,092
Net position	1,187,280	(1,865,351)	(678,071)	4,054,784	74,037	4,128,821	3,450,750
Accumulated gap	1,187,280	(678,071)		3,376,713	3,450,750		

21 Risk management

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

Risk management structure

The Supervisory Board is ultimately responsible for identifying and controlling risks; Because of the small size of the Company there are no more separate committees, all risks and processes are controlled by member of supervisory board, which are the same persons as owners.

21.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances.

The carrying amounts of the Company's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

21.2 Risk concentrations

Geographical sectors

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In Georgian lari	Georgia	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	524,413	-	-	524,413
Loans and advances to customers	6,457,537	-	-	6,457,537
As of 31 December 2017	6,981,950	-	-	6,981,950
Cash and cash equivalents	230,705	-	-	230,705
Loans and advances to customers	7,021,137	-	-	7,021,137
As of 31 December 2016	7,251,842	-	-	7,251,842

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December.

In Georgian lari	Financial institutions	Consumer sector	Total
Cash and cash equivalents	524,413	-	524,413
Loans and advances to customers	-	6,457,537	6,457,537
As of 31 December 2017	524,413	6,457,537	6,981,950

In Georgian lari	Financial institutions	Consumer sector	Total
Cash and cash equivalents	230,705	-	230,705
Loans and advances to customers	-	7,021,137	7,021,137
As of 31 December 2016	230,705	7,021,137	7,251,842

21.3 Risk limit control and mitigation policies

The Company manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product are approved by the management of the Company.

Collateral

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans are:

- Mortgages over residential properties;
- Movable properties, like cars.

The Company will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

The analysis of gross loan portfolio by collateral is represented as follows:

In Georgian lari	2017	2016
Loans collateralized by real estate	6,160,362	6,845,789
Loans collateralized by movable property	326,796	215,445
Unsecured loans	274,790	256,618
Total loans and advances to customers (gross)	6,761,948	7,317,852

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally they are not updated unless loans are assessed as individually impaired.

21.4 Impairment and provisioning policies

The management of the Company considers that no impairment reserve shall be recognised for loans as far as all loans issued are secured by adequate collaterals and if the borrower fails to cover the loan, then the Company will recover the loan by selling related collateral.

Individually assessed allowances

The Company determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's ability to improve performance once a financial difficulty has arisen, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Past due but not impaired loans

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired.

Analysis of past due loans by age and by class is provided below.

In Georgian lari					2017
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Individuals	45,359	58,322	-	2,840,157	2,943,838
Total	45,359	58,322	-	2,840,157	2,943,838

In Georgian lari					2016
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Individuals	135,811	-	64,554	3,116,273	3,316,638
Total	135,811	-	64,554	3,116,273	3,316,638

21.5 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The tables below indicate the currencies to which the Company had significant exposure at 31 December 2017 on its monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Georgian lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive monetary assets and

liabilities) and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In Georgian lari	2017		2016	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	+15	380,971	+15	647,806

The Company's exposure to foreign currency exchange risk is as follow:

In Georgian lari	Georgian lari	Freely convertible currencies/ precious metals	Non-freely convertible currencies	Total
ASSETS				
Cash and cash equivalents	12,007	512,406	-	524,413
Loans and advances to customers	1,485,617	4,971,920	-	6,457,537
	1,497,624	5,484,326	-	6,981,950
LIABILITIES				
Loans and borrowings	-	2,944,517	-	2,944,517
Other liabilities	642,297	-	-	642,297
Total	642,297	2,944,517	-	3,586,814
Net position as of 31 December 2017	855,327	2,539,809	-	3,395,136

In Georgian lari	Georgian lari	Freely convertible currencies/ precious metals	Non-freely convertible currencies	Total
ASSETS				
Cash and cash equivalents	34,225	196,480	-	230,705
Loans and advances to customers	-	7,021,137	-	7,021,137
	34,225	7,217,617	-	7,251,842
LIABILITIES				
Loans and borrowings	-	2,898,908	-	2,898,908
Other liabilities	902,184	-	-	902,184
Total	902,184	2,898,908	-	3,801,092
Net position as of 31 December 2016	(867,959)	4,318,709	-	3,450,750

21.6 Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Company.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2017 and 31 December 2016 based on contractual undiscounted repayment obligations. See note 20 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Company expects that many lenders will not request repayment on the earliest date the Company could be required to pay and the table does not reflect the expected cash flows indicated by the Company's borrowing retention history.

In Georgian lari						2017
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
NON-DERIVATIVE FINANCIAL LIABILITIES						
Dividends payable	642,297	-	-	-	-	**642,297**
Borrowings	-	-	3,182,885	-	-	**3,182,885**
Total undiscounted non-derivative financial liabilities	**642,297**	**-**	**3,182,885**	**-**	**-**	**3,825,182**

In Georgian lari						2016
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
NON-DERIVATIVE FINANCIAL LIABILITIES						
Accounts payable	31,762	-	-	-	-	**31,762**
Dividends payable	870,422	-	-	-	-	**870,422**
Borrowings	-	-	3,301,189	-	-	**3,301,189**
Total undiscounted non-derivative financial liabilities	**902,184**	**-**	**3,301,189**	**-**	**-**	**4,203,373**

21.7 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Director. This responsibility includes the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the National Bank of Georgia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

22 Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

In Georgian lari

	Borrowings received	Total
As of 1 January 2016	2,486,360	2,486,360
Cash-flows:		
Principal repaid	(425,960)	(425,960)
Interest repaid	(26,371)	(26,371)
Proceeds	260,564	260,564
	(191,767)	(191,767)
Non-cash:		
Interest charge	344,545	344,545
Personal income tax accrued on interest	(19,000)	(19,000)
Foreign exchange gain/loss	278,770	278,770
Reclassification interest to principal	(334,627)	(334,627)
Increase of principal due to reclassification of interest	334,627	334,627
	604,315	604,315
As of 31 December 2016	2,898,908	2,898,908
Cash-flows:		
Principal repaid	(158,747)	(158,747)
Interest repaid	(22,735)	(22,735)
Proceeds	35,116	35,116
	(146,366)	(146,366)
Non-cash:		
Interest charge	264,664	264,664
Personal income tax accrued on interest	(13,706)	(13,706)
Foreign exchange gain/loss	(58,983)	(58,983)
Reclassification interest to principal	(85,564)	(85,564)
Increase of principal due to reclassification of interest	85,564	85,564
	191,975	191,975
As of 31 December 2017	2,944,517	2,944,517

23 Capital adequacy

The National Bank of Georgia defines the minimal value of the total normative capital amounting to GEL 250,000.

As of 31 December 2017 and as of 31 December 2016 the Company's charter capital was Georgian lari 500,000. The primary objectives of the Company's capital management are to insure that the Company complies with externally imposed capital requirements and that the Company maintains healthy capital ratios in order to support its business and to maximize shareholder's value.

The Company has complied with all externally imposed capital requirements through the period.

Grant Thornton

Independent auditor's report

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To the owners of MFO City Credit LLC

Qualified Opinion

We have audited the financial statements of Micro Finance Organization of City Credit JSC (the "Company"), which comprise the statement of financial position as of 31 December 2017 and 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2017 and 31 December 2016, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

The fair value of collateral property less costs to sell, is assessed by the Company only at the time of issuance of the loan, and is not updated thereafter. Valuation is performed by Company's loan specialists, based on comparison with similar properties listed on publicly available sources. Due to lack of reliable and updated property valuations, performed by qualified independent appraisers, we were unable to obtain sufficient appropriate evidence regarding the present value of cash flows from foreclosure of collaterals held by the Company for impaired loans, and therefore, we were unable to determine whether any adjustments might have been found necessary in respect of the amount recognized as allowance for impairment losses on loans and advances to customers reported in the statement of financial position as of 31 December 2017 and 31 December 2016, and in respect of impairment charges reported in the statement of profit or loss and other comprehensive income for the years then ended.

The Company recognizes fines and penalties on overdue loans on cash basis, in accordance with the requirements of the Tax Code of Georgia. This approach is not in accordance with the accrual basis of accounting and constitutes a departure from IFRS. Due to the nature of the accounting records of the Company, we were unable to determine the amount of the adjustments that are necessary in respect of balances of loans and advances to customers reported in the statement of financial position as of 31 December 2017 and 31 December 2016, and in respect of income from penalties reported in the statement of profit or loss and other comprehensive income for the years then ended.

We conducted our audit in accordahce 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 (the "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 those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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 skepticism 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, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Vakhtang Tsabadze
Managing Partner

Ketevan Ghambashidze
Registered Auditor

11 June 2019

Statement of profit or loss and other comprehensive income

In Georgian lari	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Interest and similar income	6	1,019,153	1,510,325
Interest and similar expense	6	(264,664)	(344,545)
Net interest income		754,489	1,165,780
Fee and commission expense		(810)	(1,005)
Net fee and commission		(810)	(1,005)
Loss from foreign currency operations		(19,539)	(6,652)
Other income	7	224,236	596,819
Impairment charge	11	(7,696)	(48,497)
Staff costs		(149,663)	(172,600)
Depreciation of property and equipment		(19,114)	(19,842)
Amortization of intangible assets		(2,562)	(5,901)
Other expenses	8	(363,382)	(165,942)
Profit before income tax		415,959	1,342,160
Income tax expense	9	(85,602)	(197,873)
Profit for the year		330,357	1,144,287
Other comprehensive income		-	-
Total comprehensive income for the year		330,357	1,144,287

The financial statements were approved on 11 June 2019 by:

Otar Tsanava
Director

Nana Rurua
Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 41.

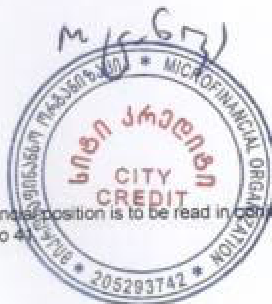
Statement of financial position

In Georgian lari	Notes	As of 31 December 2017	As of 31 December 2016	As of 1 January 2016 (unaudited)
Assets				
Cash and cash equivalents	10	524,413	230,705	265,434
Loans and advances to customers	11	6,457,537	7,021,137	5,787,932
Property and equipment	12	44,572	69,886	74,240
Intangible assets	13	-	2,562	8,463
Deferred income tax assets	9	47,221	44,823	59,799
Other assets	14	621,313	271,493	119,690
Total assets		7,695,056	7,640,606	6,315,558
Liabilities and equity				
Loans and borrowings	15	2,944,517	2,898,908	2,486,362
Current income tax liabilities		45,410	69,600	107,712
Other liabilities	16	669,112	966,438	1,160,111
Total liabilities		3,659,039	3,934,946	3,754,185
Equity				
Charter capital	17	500,000	500,000	500,000
Retained earnings		3,536,017	3,205,660	2,061,373
Total equity		4,036,017	3,705,660	2,561,373
Total liabilities and equity		7,695,056	7,640,606	6,315,558

The financial statements were approved on 11 June 2019 by:

Otar Tsanava
Director

Nana Rurua
Accountant



The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 41.