

**Microfinance Organization  
Continental City Credit LLC**

**Consolidated Financial Statements  
for the year ended 31 December 2015**

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## **Independent Auditors' Report**

To the Shareholders and Supervisory Board  
Microfinance Organization Continental City Credit LLC

We have audited the accompanying consolidated financial statements of Microfinance Organization Continental City Credit LLC and its subsidiary (the Group)), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Georgia LLC  
Tbilisi, Georgia

17 August 2016

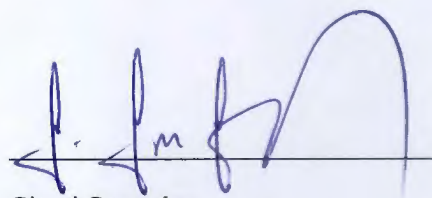
*KPMG Georgia LLC*



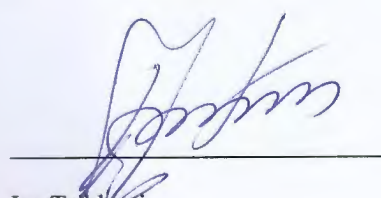
**Microfinance Organisation Continental City Credit LLC**  
*Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015*

	Notes	2015 GEL'000	2014 GEL'000
Interest income	4	10,505	4,133
Interest expense	4	(2,141)	(912)
<b>Net interest income</b>		<b>8,364</b>	<b>3,221</b>
Fee and commission income		5	126
Fee and commission expense		(38)	(22)
<b>Net fee and commission (expense)</b>		<b>(33)</b>	<b>104</b>
Net foreign exchange income		839	326
Other operating income		122	52
<b>Operating income</b>		<b>9,292</b>	<b>3,703</b>
Impairment losses	9	(2,040)	(198)
Personnel expenses	5	(2,031)	(1,164)
Other general administrative expenses	6	(2,025)	(656)
<b>Profit before income tax</b>		<b>3,190</b>	<b>1,685</b>
Income tax expense	7	(720)	(246)
<b>Profit and other comprehensive income for the year</b>		<b>2,470</b>	<b>1,439</b>
<b>Profit attributable to:</b>			
- Equity holders of the Group		2,402	1,442
- Non-controlling interests		68	(3)
<b>Profit and other comprehensive income for the year</b>		<b>2,470</b>	<b>1,439</b>

The consolidated financial statements as set out on pages 4 to 39 were approved by management on 17 August 2016 and were signed on its behalf by:



Giorgi Gogvadze  
Chief Executive Officer



Iza Tsiklauri  
Chief Accountant

*Microfinance Organisation Continental City Credit LLC*  
*Consolidated Statement of Financial Position as at 31 December 2015*

	Notes	2015 GEL'000	2014 GEL'000
<b>ASSETS</b>			
Cash and cash equivalents	8	3,966	1,471
Loans to customers	9	19,711	13,705
Property and equipment	10	424	326
Intangible assets	11	47	43
Deferred tax assets	8	315	43
Other assets	12	1,942	827
<b>Total assets</b>		<b>26,405</b>	<b>16,415</b>
<b>LIABILITIES</b>			
Loans and borrowings:	13		
- Principal		20,144	10,111
- Interest		14	13
Current tax liability		708	191
Other liabilities	14	115	146
<b>Total liabilities</b>		<b>20,981</b>	<b>10,461</b>
<b>EQUITY</b>			
Charter capital	15	4,800	4,800
Retained earnings		539	1,157
<b>Total equity attributable to equity holders of the Group</b>		<b>5,339</b>	<b>5,957</b>
Non-controlling interests		85	(3)
<b>Total equity</b>		<b>5,424</b>	<b>5,954</b>
<b>Total liabilities and equity</b>		<b>26,405</b>	<b>16,415</b>

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

**Microfinance Organisation Continental City Credit LLC**  
*Consolidated Statement of Cash Flows for the year ended 31 December 2015*

	Notes	<b>2015</b> <b>GEL'000</b>	<b>2014</b> <b>GEL'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest receipts		9,433	2,868
Interest payments		(2,158)	(903)
Fee and commission receipts		5	1,131
Fee and commission payments		(38)	(22)
Other expenses payments		(28)	52
Personnel expenses payments		(2,030)	(1,164)
Other general administrative expenses payments		(1,823)	(543)
<b>Increase in operating assets</b>			
Loans to customers		(2,902)	(5,026)
Other assets		(1,117)	(318)
<b>Decrease in operating liabilities</b>			
Other liabilities		(140)	82
<b>Net cash used in operating activities before income tax paid</b>		<b>(798)</b>	<b>(3,843)</b>
Income tax paid		(475)	(182)
<b>Cash flows used in operations</b>		<b>(1,082)</b>	<b>(4,025)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property and equipment		(280)	(120)
Purchases of intangible assets		(8)	(1)
<b>Cash flows used in investing activities</b>		<b>(288)</b>	<b>(121)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Receipts from loans and borrowings		23,916	7,905
Repayment of loans and borrowings		(17,358)	(2,307)
Dividends paid		(3,020)	(790)
<b>Cash flows from financing activities</b>		<b>3,538</b>	<b>4,808</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,977</b>	<b>662</b>
Effect of changes in exchange rates on cash and cash equivalents		518	68
Cash and cash equivalents as at the beginning of the year		1,471	741
<b>Cash and cash equivalents as at the end of the year</b>	9	<b>3,966</b>	<b>1,471</b>

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

**Microfinance Organisation Continental City Credit LLC**  
*Consolidated Statement of Changes in Equity for the year ended 31 December 2015*

<b>GEL'000</b>	<b>Charter capital</b>	<b>Retained earnings</b>	<b>Total</b>	<b>Non-controlling interests</b>	<b>Total equity</b>
<b>Balance as at 1 January 2014</b>	4,800	505	5,305	-	5,305
Profit and other comprehensive income for the year	-	1,442	1,442	(3)	1,439
<b>Transactions with owners, recorded directly in equity</b>					
Dividends declared and paid	-	(790)	(790)	-	(790)
<b>Balance as at 31 December 2014</b>	<b>4,800</b>	<b>1,157</b>	<b>5,957</b>	<b>(3)</b>	<b>5,954</b>
<b>Balance as at 1 January 2015</b>	4,800	1,157	5,957	(3)	5,954
Profit and other comprehensive income for the year	-	2,402	2,402	68	2,470
<b>Transactions with owners, recorded directly in equity</b>					
Increase of the subsidiary's charter capital by the NCI	-	-	-	20	20
Dividends declared and paid	-	(3,020)	(3,020)	-	(3,020)
<b>Balance as at 31 December 2015</b>	<b>4,800</b>	<b>539</b>	<b>5,339</b>	<b>85</b>	<b>5,424</b>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

# **1 Background**

## **(a) Organization and operations**

These consolidated financial statements comprise the financial statements of Microfinance Organization Continental City Credit LLC (the Company) and its subsidiary (together, the Group).

The Company was established on 6 March 2012 according to the Georgian Law on Microfinance Organizations dated 18 July 2006.

The legal address of the Company is 23-23a Chavchavadze Street, Tbilisi, Georgia.

The main activity of the Company consumer and pawnshop microlending in Tbilisi. The Company's activities are performed according to the "Georgian law on Microfinance Organisations" and regulated by the National Bank of Georgia.

In August 2014 the Company established a new subsidiary: CC Loan LLC. The subsidiary is registered and incorporated in Georgia and is engaged in the provision of online payday loans to its customers. As at 31 December 2015 and 2014 the Company holds 90% ownership and the other 10% is owned by two Georgian resident individuals.

The supreme governing body of the Company is the General Meeting of Shareholders. The supervision of the Company's operations is conducted by the Supervisory Board, members of which are appointed by the General Meeting of Shareholders. Daily management of the Company is carried out by the Directors appointed by the Supervisory Board.

As of 31 December 2015, the Company is owned by three individuals: Michael Bashirov (1/3 of shares), David Uzarashvili (1/3 of shares) and Gai Ben Levy (1/3 of shares).

As of 31 December 2014, the Company was owned by two individuals: Michael Bashirov (50%) and David Uzarashvili (50%).

20% (2014: 24%) of debt funding of the Company is from, and credit exposures are to, these shareholders. As a result the Company is economically dependent upon the shareholders and the activities of the Company are closely linked with the requirements of the shareholders.

The shareholders have the power to direct the transactions of the Company at their own discretion and for their own benefit. They also have a number of other business interests outside the Company.

Related party transactions are disclosed in detail in note 19.

## **(b) Georgian business environment**

The Group's operations are located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Georgia. The consolidated financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and financial position of the Group. The future business environment may differ from management's assessment.



## **2 Basis of preparation**

### **(a) Statement of compliance**

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

### **(b) Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis.

### **(c) Functional and presentation currency**

The functional currency of the Company and its subsidiary is the Georgian Lari (GEL) as, being the national currency of Georgia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The GEL is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in GEL is rounded to the nearest thousands, except when otherwise indicated.

### **(d) Use of estimates and judgments**

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 9 - loan impairment estimates.

## **3 Significant accounting policies**

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, and are applied consistently by Group entities.

### **(a) Basis of consolidation**

#### **(i) Subsidiaries**

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**(ii) *Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

**(b) *Non-controlling interests***

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the Company.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Company. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statement of profit or loss and other comprehensive income.

**(c) *Foreign currency***

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss.

**(d) *Cash and cash equivalents***

Cash and cash equivalents include notes and coins on hand and unrestricted current accounts held with banks with original maturities of less than three months. Cash and cash equivalents are carried at amortized cost in the consolidated statement of financial position.

**(e) *Financial instruments***

**(i) *Classification***

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration

Management determines the appropriate classification of financial instruments at the time of the initial recognition.

The Group classifies non-derivative financial assets into loans and receivables category, which consists of loans to customers and cash and cash equivalents.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Other financial liabilities comprise loans and borrowings and other payables.

**(ii) *Recognition***

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

**(iii) *Measurement***

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on their sale or other disposal, except for loans and receivables which are measured at amortized cost using the effective interest method.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

**(iv) *Amortized cost***

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

**(v) *Fair value measurement principles***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

**(vi) *Gains and losses on subsequent measurement***

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

**(vii) *Derecognition***

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability in the consolidated statement of financial position. The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group writes off assets deemed to be uncollectible.

**(viii) *Offsetting***

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

**(f) *Property and equipment***

**(i) *Owned assets***

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

**(ii) Depreciation**

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- Computers	4 years;
- Vehicles	5 years;
- furniture and office equipment	5 years;
- leasehold improvements	3 to 5 years;
- other	5 years.

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(g) Intangible assets**

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 5 to 7 years.

**(h) Repossessed collateral**

Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The Group recognises repossessed assets in the consolidated statement of financial position when it has the full and final settlement rights to the collateral.

At initial recognition repossessed assets are measured at the lower of the carrying amount and the fair value less costs to sell and are included in repossessed assets within other assets depending on their nature and the Group's intention with respect to recovery of these assets. They are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

The carrying amount of the repossessed assets is measured based on the value of the defaulted loan, including expenditure incurred in the process of collateral foreclosure. Fair value less costs to sell is the estimated selling price of the collateral in the ordinary course of business, less the related selling costs.

**(i) Impairment**

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Group determines the amount of any impairment loss.

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

**(i) *Financial assets carried at amortized cost***

Financial assets carried at amortized cost consist principally of loans and other receivables. The Group reviews its loans and receivables to assess impairment on a regular basis.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data related to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectable and when all necessary steps to collect the loan are completed.

**(ii) *Non financial assets***

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(j) Equity**

**(i) Charter Capital**

Charter capital is classified as equity.

**(ii) Dividends**

The ability of the Group to declare and pay dividends is subject to the rules and regulations of Georgian legislation.

Dividends in relation to charter capital are reflected as an appropriation of retained earnings in the period when they are declared.

**(k) Taxation**

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

**(l) Income and expense recognition**

Interest income and expense are recognized in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Dividend income is recognized in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

**(m) New standards and interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2015, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

<b>New or amended standard</b>	<b>Summary of the requirements</b>	<b>Possible impact on consolidated financial statements</b>
IFRS 9 <i>Financial Instruments</i>	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 <i>Financial Instruments: Recognition and Measurement</i> . IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.  IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.
IFRS 15 <i>Revenue from Contracts with Customers</i>	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 <i>Revenue</i> , IAS 11 <i>Construction Contracts</i> and IFRIC 13 <i>Customer Loyalty Programmes</i> .  The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements.  IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2016. The Group has not yet analyzed the likely impact of the improvements on its financial position or performance.



## 4 Net interest income

	<b>2015</b>	<b>2014</b>
	<b>GEL'000</b>	<b>GEL'000</b>
<b>Interest income</b>		
Loans to customers	10,367	4,068
Cash and cash equivalents	138	65
	<b>10,505</b>	<b>4,133</b>
<b>Interest expense</b>		
Loans and borrowings	<b>(2,141)</b>	<b>(912)</b>
	<b>8,364</b>	<b>3,211</b>

Included within interest income from loans to customers for the year ended 31 December 2015 is a total of GEL 3,233 thousand (2014: GEL 1,468 thousand) accrued on impaired financial assets.

## 5 Personnel expenses

	<b>2015</b>	<b>2014</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Employee compensation	1,410	931
Payroll related taxes	621	233
	<b>2,031</b>	<b>1,164</b>

## 6 Other general administrative expenses

	<b>2015</b>	<b>2014</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Marketing and advertising	613	23
Rent	388	269
Utilities and communication	167	41
Depreciation and amortization	163	132
Fee and commission expense	149	-
Loan intermediation fee	148	-
Legal expenses	132	52
Professional expenses	58	25
Repairs and maintenance	51	51
Consumables and office supplies	18	8
Taxes other than on income	6	3
Stationery expenses	5	5
Security expenses	4	4
Other	123	43
	<b>2,025</b>	<b>656</b>

## 7 Income tax expense

	<b>2015</b> <b>GEL'000</b>	<b>2014</b> <b>GEL'000</b>
Current year tax expense	992	283
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(272)	(37)
<b>Total income tax expense</b>	<b>720</b>	<b>246</b>

In 2015, the applicable tax rate for current and deferred tax is 15% (2014: 15%).

### Reconciliation of effective tax rate for the year ended 31 December:

	<b>2015</b> <b>GEL'000</b>	<b>%</b>	<b>2014</b> <b>GEL'000</b>	<b>%</b>
Profit before tax	3,190		1,685	
Income tax at the applicable tax rate	479	15.0	253	15.0
Non-deductible costs/(non-taxable income)	241	7.6	(7)	(0.4)
	<b>720</b>	<b>22.6</b>	<b>246</b>	<b>14.6</b>

### (a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2015 and 2014. The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2015 and 2014 are presented as follows.

<b>GEL'000</b>	<b>Balance</b> <b>1 January 2015</b>	<b>Recognised</b> <b>in profit or loss</b>	<b>Balance</b> <b>31 December 2015</b>
Loans to customers	65	281	346
Property and equipment	(26)	(10)	(36)
Intangible assets	2	1	3
Loans and Borrowings	2	-	2
	<b>43</b>	<b>272</b>	<b>315</b>

<b>GEL'000</b>	<b>Balance 1 January 2014</b>	<b>Recognised in profit or loss</b>	<b>Balance 31 December 2014</b>
Loans to customers	23	42	65
Property and equipment	(23)	(3)	(26)
Intangible assets	-	2	2
Other assets	3	(3)	-
Loans and Borrowings	-	2	2
Other liabilities	3	(3)	-
	<b>6</b>	<b>37</b>	<b>43</b>

## 8 Cash and cash equivalents

	<b>2015 GEL'000</b>	<b>2014 GEL'000</b>
Cash on hand	29	29
Bank balances	3,937	1,442
<b>Total cash and cash equivalents</b>	<b>3,966</b>	<b>1,471</b>

No cash and cash equivalents are impaired or past due. The majority of the Group's cash in banks is with Georgian banks rated by Fitch as B (short-term rating), BB- (long-term rating), BB (long-term rating) and B (long-term rating).

As at 31 December 2015 the Company has 1 bank (2014: nil), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2015 is GEL 3,196 thousand (2014: nil).

## 9 Loans to customers

	<b>2015 GEL'000</b>	<b>2014 GEL'000</b>
Principal	18,541	13,230
Interest	1,170	475
<b>Total loans to customers</b>	<b>19,711</b>	<b>13,705</b>
	<b>2015 GEL'000</b>	<b>2014 GEL'000</b>
<b>Loans to retail customers</b>		
Loans collateralized by real estate	14,593	13,548
Unsecured short-term loans*	7,261	241
Other collateralized loans	212	231
<b>Total loans to retail customers</b>	<b>22,066</b>	<b>14,020</b>
<b>Gross loans to customers</b>	<b>22,066</b>	<b>14,020</b>
Impairment allowance	(2,355)	(315)
<b>Net loans to customers</b>	<b>19,711</b>	<b>13,705</b>

\* The balance of unsecured short-term loans represents online payday loans issued by CC Loan LLC to its customers. The loans are issued for up to 30 days with the maximum of GEL 700 with a GEL 133 commission (19% of the loan amount). All loans are unsecured, and the only way to mitigate the risks is based on the assessment of customer solvency, his or her characteristics, and historical data. All the transactions related to issuing and collecting the loans are cash-free and are carried out via the internet. In order to prevent fraud, one of the main principles in credit risk assessment is the requirement of identifying the customer by making a money transfer of one tetri from the customer's bank account to CC Loan LLC's account. For the purposes of attracting customers the first loan up to GEL 200 is provided without the commission charge. In addition to the standard terms of the payday loans CC Loan LLC also offers extensions of 5-30 days with a charge of 10-22% of the loan amount, respectively.

Movements in the loan impairment allowance during 2015 are as follows:

	<b>2015</b> <b>GEL'000</b>
Balance at the beginning of the year	(315)
Net charge	(2,040)
<b>Balance at the end of the year</b>	<b>(2,355)</b>

Movements in the loan impairment allowance during 2014 are as follows

	<b>2014</b> <b>GEL'000</b>
Balance at the beginning of the year	(117)
Net charge	(198)
<b>Balance at the end of the year</b>	<b>(315)</b>

The following table provides information by types of loans as at 31 December 2015:

	<b>Gross amount</b> <b>GEL'000</b>	<b>Impairment</b> <b>allowance</b> <b>GEL'000</b>	<b>Carrying amount</b> <b>GEL'000</b>
<b>Loans to retail customers:</b>			
Loans collateralized by real estate	14,593	(808)	13,785
Unsecured short-term loans	7,261	(1,541)	5,720
Other collateralized loans	212	(6)	206
<b>Total loans to customers</b>	<b>22,066</b>	<b>(2,355)</b>	<b>19,711</b>

The following table provides information by types of loans as at 31 December 2014:

	<b>Gross amount</b> <b>GEL'000</b>	<b>Impairment</b> <b>allowance</b> <b>GEL'000</b>	<b>Carrying amount</b> <b>GEL'000</b>
<b>Loans to retail customers:</b>			
Loans collateralized by real estate	13,789	(305)	13,484
Unsecured short-term loans	215	(7)	208
Other collateralized loans	16	(3)	13
<b>Total loans to customers</b>	<b>14,020</b>	<b>(315)</b>	<b>13,705</b>

**(a) Credit quality of loans to customers**

The following table provides information on the credit quality of loans to customers as at 31 December 2015:

	<b>Gross loans GEL'000</b>	<b>Impairment allowance GEL'000</b>	<b>Net loans GEL'000</b>	<b>Impairment allowance to gross loans, %</b>
<b>Loans to retail customers</b>				
<b>Loans collateralized by real estate</b>				
- not overdue	7,884	(39)	7,845	0.5%
- overdue less than 30 days	1,291	(6)	1,285	0.5%
- overdue 30-60 days	348	(17)	331	4.9%
- overdue 60-180 days	1,655	(166)	1,489	10.0%
- overdue 180-360 days	2,560	(384)	2,176	15.0%
- overdue more than 365 days	855	(196)	659	22.9%
<b>Total loans collateralized by real estate</b>	<b>14,593</b>	<b>(808)</b>	<b>13,785</b>	<b>5.5%</b>
<b>Unsecured short-term loans</b>				
- not overdue	4,855	(242)	4,613	5.0%
- overdue less than 30 days	1,145	(354)	791	30.9%
- overdue 30-60 days	749	(519)	230	69.3%
- overdue 60-180 days	346	(274)	72	79.2%
- overdue 180-360 days	154	(140)	14	90.9%
- overdue more than 365 days	12	(12)	-	100.0%
<b>Total unsecured short-term loans</b>	<b>7,261</b>	<b>(1,541)</b>	<b>5,720</b>	<b>21.2%</b>
<b>Other collateralized loans</b>				
- not overdue	179	(1)	178	0.6%
- overdue from 61-180 days	7	(1)	6	14.3%
- overdue from 181-365 days	4	(1)	3	25.0%
- overdue more than 365 days	22	(3)	19	13.6%
<b>Total other collateralized loans</b>	<b>212</b>	<b>(6)</b>	<b>206</b>	<b>2.8%</b>
<b>Total loans to customers</b>	<b>22,066</b>	<b>(2,355)</b>	<b>19,711</b>	<b>10.7%</b>

The following table provides information on the credit quality of the loans to customers as at 31 December 2014:

	<b>Gross loans GEL'000</b>	<b>Impairment allowance GEL'000</b>	<b>Net loans GEL'000</b>	<b>Impairment allowance to gross loans, %</b>
<b>Loans to retail customers</b>				
<b>Loans collateralized by real estate</b>				
- not overdue	9,713	(49)	9,664	0.5%
- overdue less than 30 days	1,458	(7)	1,451	0.5%
- overdue 30-60 days	816	(40)	776	4.9%
- overdue 60-180 days	1,156	(115)	1,041	9.9%
- overdue 180-360 days	405	(93)	312	23.0%
<b>Total loans collateralized by real estate</b>	<b>13,548</b>	<b>(304)</b>	<b>13,244</b>	<b>2.2%</b>

	Gross loans GEL'000	Impairment allowance GEL'000	Net loans GEL'000	Impairment allowance to gross loans, %
<b>Unsecured short-term loans</b>				
- not overdue	241	(1)	240	0.4%
<b>Total unsecured short-term loans</b>	<b>241</b>	<b>(1)</b>	<b>240</b>	<b>0.4%</b>
<b>Other collateralized loans</b>				
- not overdue	150	(1)	149	0.7%
- overdue more than 30 days	81	(9)	72	11.1%
<b>Total other collateralized loans</b>	<b>231</b>	<b>(10)</b>	<b>221</b>	<b>4.3%</b>
<b>Total loans to customers</b>	<b>14,020</b>	<b>(315)</b>	<b>13,705</b>	<b>2.2%</b>

**(b) Key assumptions and judgments for estimating loan impairment**

**(i) Loans to retail customers**

The Group does not have individually significant loans.

Management estimates loan impairment for loans to retail customers based on an analysis of the future cash flows for impaired loans and based on its past historical loss experience.

The assumptions used by management in determining the impairment losses for loans to retail customers include: overdue payments under loan agreements, significant difficulties in the financial conditions of the borrower and realisability of related collateral, if any.

The significant assumptions used by management in determining the impairment losses for loans secured by real estate include:

- 0.5% collective provision considering the economic environment and market loss experience for not overdue and overdue less than 30 days loans;
- for loans with individual signs of impairment a delay of 6-12 months in obtaining proceeds from the foreclosure of collateral and a discount of between 10% and 20% to the liquid value (which is not more than 70% of originally appraised value) if the property pledged is sold.

The significant assumptions used by management in determining the impairment losses for unsecured short-term loans include that loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months and considering the economic environment and market loss experience for the similar products.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to customers as at 31 December 2015 would be GEL 591 thousand lower/higher (2014: GEL 411 thousand).

**(c) Analysis of collateral and other credit enhancements**

**(i) Loans to retail customers**

The following table provides the analysis of the loan portfolio, net of impairment:

	<b>2015</b> <b>GEL'000</b>	<b>% of loan</b> <b>portfolio</b>	<b>2014</b> <b>GEL'000</b>	<b>% of loan</b> <b>portfolio</b>
Real estate	13,785	70%	13,244	96%
Loans without collateral	5,720	29%	240	2%
Other collateralized loans	206	1%	221	2%
<b>Total</b>	<b>19,711</b>	<b>100%</b>	<b>13,705</b>	<b>100%</b>

The following tables provide information on loans secured by collateral, net of impairment:

**31 December 2015**

<b>GEL'000</b>	<b>Loans to customers,</b> <b>carrying amount</b>	<b>Fair value of collateral –</b> <b>for collateral assessed as</b> <b>of loan inception date</b>
Not overdue loans	8,023	8,023
Overdue loans	5,968	5,968
<b>Total loans</b>	<b>13,991</b>	<b>13,991</b>

**31 December 2014**

<b>GEL'000</b>	<b>Loans to customers,</b> <b>carrying amount</b>	<b>Fair value of collateral –</b> <b>for collateral assessed as</b> <b>of loan inception date</b>
Not overdue loans	9,813	9,813
Overdue loans	3,652	3,652
<b>Total loans</b>	<b>13,465</b>	<b>13,465</b>

The tables above exclude overcollateralization.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

The Group's policy is to issue loans collateralised by real estate with a loan-to-value ratio at the date of loan issuance to be maximum 60% of the liquid value of the collateralized real estate. Due to the low loan-to-value ratio, the management does not expect any negative movements in market prices to have a significant impact on recoverability of the loans. Loans collateralised by real estate comprise more than 67% of the total portfolio as at 31 December 2015 (2014: more than 95%).

**(ii) Repossessed collateral**

During the year ended 31 December 2015, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of GEL 573 thousand. As at 31 December 2015 and 2014, the repossessed collateral comprises:

	<b>2015</b>	<b>2014</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Real estate	537	713
Other assets	36	6
<b>Total repossessed collateral</b>	<b>573</b>	<b>719</b>

The Group's policy is to sell these assets as soon as it is practicable.

**(d) Asset under lien**

As at 31 December 2015 no loans to customers (2014: nil) serve as collateral for loans and borrowings.

**(e) Significant credit exposures**

As at 31 December 2015 no individual loan balances or groups of connected borrowers' balances exceed 10% of equity (2014: nil).

**(f) Loan maturities**

The maturity of the loan portfolio is presented in note 16(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.



## 10 Property and equipment

GEL'000	Computers	Vehicles	Furniture and office equipment	Leasehold improvements	Other	Total
<b>Cost</b>						
Balance at 1 January 2015	64	167	64	216	52	563
Additions	118	61	54	3	44	280
Disposals	-	(55)	(1)	-	-	(56)
<b>Balance at 31 December 2015</b>	<b>182</b>	<b>173</b>	<b>117</b>	<b>219</b>	<b>96</b>	<b>787</b>
<b>Depreciation</b>						
Balance at 1 January 2015	(34)	(37)	(25)	(116)	(25)	(237)
Depreciation for the year	(28)	(34)	(18)	(11)	(50)	(141)
Disposals	-	15	-	-	-	15
<b>Balance at 31 December 2015</b>	<b>(62)</b>	<b>(56)</b>	<b>(43)</b>	<b>(127)</b>	<b>(75)</b>	<b>(363)</b>
<b>Carrying amount</b>						
<b>At 31 December 2015</b>	<b>120</b>	<b>117</b>	<b>74</b>	<b>92</b>	<b>21</b>	<b>424</b>
<b>Balance at 1 January 2014</b>						
Balance at 1 January 2014	44	83	48	216	52	443
Additions	20	84	16	-	-	120
<b>At 31 December 2014</b>	<b>64</b>	<b>167</b>	<b>64</b>	<b>216</b>	<b>52</b>	<b>563</b>
<b>Depreciation</b>						
Balance at 1 January 2014	(18)	(11)	(13)	(67)	(14)	(123)
Depreciation for the year	(16)	(26)	(12)	(49)	(11)	(114)
<b>Balance at 31 December 2014</b>	<b>(34)</b>	<b>(37)</b>	<b>(25)</b>	<b>(116)</b>	<b>(25)</b>	<b>(237)</b>
<b>Carrying amounts</b>						
<b>At 31 December 2014</b>	<b>30</b>	<b>130</b>	<b>39</b>	<b>100</b>	<b>27</b>	<b>326</b>

## 11 Intangible assets

<b>GEL'000</b>	<b>Computer software</b>
<b>Cost</b>	
Balance as at 1 January 2014	89
Additions	1
<b>At 31 December 2014</b>	<b>90</b>
Additions	28
Disposals	(1)
<b>At 31 December 2015</b>	<b>116</b>
<b>Amortization</b>	
Balance as at 1 January 2014	(29)
Amortization for the year	(18)
<b>Balance at 31 December 2014</b>	<b>(47)</b>
Amortization for the year	(22)
<b>Balance at 31 December 2015</b>	<b>(69)</b>
<b>Carrying amounts</b>	
At 31 December 2014	43
<b>At 31 December 2015</b>	<b>47</b>

## 12 Other assets

	<b>2015</b>	<b>2014</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Other receivables	477	76
<b>Total other financial assets</b>	<b>477</b>	<b>76</b>
Repossessed assets	1,292	719
Prepayments	104	27
Other assets	69	5
<b>Total other non-financial assets</b>	<b>1,465</b>	<b>751</b>
<b>Total other assets</b>	<b>1,942</b>	<b>827</b>

## 13 Loans and borrowings

This note provides information about the contractual terms of interest-bearing loans and borrowings which are measured at amortized cost. For more information about exposure to interest rate, foreign currency and liquidity risks, see note 16.

	<b>2015</b>	<b>2014</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Principal	20,144	10,111
Interest accrued	14	13
	<b>20,158</b>	<b>10,124</b>

The Group's lenders include:

	<b>2015</b>	<b>2014</b>
	<b>GEL'000</b>	<b>GEL'000</b>
<i>Non-current liabilities</i>		
Unsecured loans from individuals	2,395	373
Unsecured loans from related parties	-	1,864
Secured loans from financial institution	105	94
<b>Total non-current liabilities</b>	<b>2,500</b>	<b>2,331</b>
<i>Current liabilities</i>		
Unsecured loans from individuals	12,931	6,719
Unsecured loans from related parties	4,310	764
Secured loans from financial institution	417	310
<b>Total current liabilities</b>	<b>17,658</b>	<b>7,793</b>
<b>Total loans and borrowings</b>	<b>20,158</b>	<b>10,124</b>

### (a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 GEL	Currency	Nominal interest rate	Year of maturity	<b>31 December 2015</b>	
				Face value	Carrying amount
			2016-2018		
Unsecured loans from individuals	USD	10%-14%	On demand*	15,169	15,169
Unsecured loans from individuals	EUR	14%	2016	157	157
Unsecured loans from related parties	USD	12%-14%	2016 On demand*	4,310	4,310
Secured loans from financial institution***	USD	12%	2016-2017	522	522
<b>Total interest-bearing liabilities</b>				<b>20,158</b>	<b>20,158</b>

Terms and conditions of outstanding loans as at 31 December 2014 are as follows:

'000 GEL	Currency	Nominal interest rate	Year of maturity	31 December 2014	
				Face value	Carrying amount
Unsecured loans from individuals	USD	11%-14%	2015-2016 On demand**	7,092	7,092
Unsecured loans from related parties	USD	12%-13%	2015-2016 On demand**	2,628	2,628
Secured loans from financial institution***	USD	12%	2015-2016	404	404
<b>Total interest-bearing liabilities</b>				<b>10,124</b>	<b>10,124</b>

\* *Subject to 1 – 30 days notice*

\*\* *Subject to 1 day notice*

\*\*\*Secured loans from financial institution are secured by the repossessed assets with a carrying amount of GEL 500 thousand (2014: GEL 433 thousand), see note 12.

As at 31 December 2015 unsecured loans and borrowings with total outstanding amount of GEL 10,015 thousand (2014: GEL 671 thousand) are repayable on 1 month notice from the lender and enforcement of this option results in a reduction of the interest rate to 4-5% retrospectively from the loan disbursement date. The current non/current classification of the unsecured loans and borrowings are performed based on the original contractual terms of the respective loan contacts without considering the enforcement of the early repayment option as described above. Management believe that it is highly unlikely that the lenders will request early repayment of the loans consider the early repayment terms (lower interest rate to be applied retrospectively from the loan disbursement date) and based on historical performance.

## 14 Other liabilities

	2015 GEL'000	2014 GEL'000
Other payables (financial liabilities)	101	13
Prepayment received (non-financial liabilities)	14	133
<b>Total other liabilities</b>	<b>115</b>	<b>146</b>

## **15 Equity**

### **(a) Charter capital**

Charter capital represents the nominal amount of capital in the founding documentation of the Company and is subject to state registration.

As at 31 December 2015 and 2014, the Company's total authorised share capital was GEL 5,000 thousand out of which GEL 4,800 thousand was paid.

### **(b) Dividends**

In accordance with Georgian legislation the Group's distributable reserves are limited to the balance of retained earnings as recorded in the Group's statutory financial statements prepared in accordance with IFRSs. As at 31 December 2015 the Group had retained earnings of GEL 539 thousand (2014: GEL 1,157 thousand).

## **16 Risk management**

Management of risk is fundamental to the business and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk and liquidity risk.

### **(a) Risk management policies and procedures**

The risk management policies aim to identify, analyze and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Supervisory Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Group's Executive Directors and the Finance Function are responsible for monitoring and implementing risk mitigation measures, and ensuring that the Group operates within established risk parameters. The Chief Executive Officer (the CEO) is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The CEO reports directly to the President and indirectly to the Supervisory Board.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures. Apart from the standard credit and market risk analysis, the CEO monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

**(b) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Overall authority for market risk is vested in the Supervisory Board.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions. These are monitored on a regular basis and reviewed and approved by the Supervisory Board.

**(i) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

***Interest rate gap analysis***

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

<b>GEL'000</b>	<b>Less than 3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>1-5 years</b>	<b>More than 5 years</b>	<b>Non-interest bearing</b>	<b>Carrying amount</b>
<b>31 December 2015</b>							
<b>ASSETS</b>							
Cash and cash equivalents	3,937	-	-	-	-	29	3,966
Loans to customers	12,710	1,531	1,401	4,069	-	-	19,711
Other financial assets	-	-	-	-	-	477	477
<b>Total Assets</b>	<b>16,647</b>	<b>1,531</b>	<b>1,401</b>	<b>4,069</b>	<b>-</b>	<b>506</b>	<b>24,154</b>
<b>LIABILITIES</b>							
Loans and borrowings	(10,787)	(1,909)	(4,962)	(2,500)	-	-	(20,158)
Other financial liabilities	(101)	-	-	-	-	-	(101)
<b>Total Liabilities</b>	<b>(10,888)</b>	<b>(1,909)</b>	<b>(4,962)</b>	<b>(2,500)</b>	<b>-</b>	<b>-</b>	<b>(20,259)</b>
<b>Net position</b>	<b>5,759</b>	<b>(378)</b>	<b>(3,561)</b>	<b>1,569</b>	<b>-</b>	<b>506</b>	<b>3,895</b>

*Microfinance Organisation Continental City Credit LLC*  
*Notes to, and forming part of, the consolidated financial statements*  
*for the year ended 31 December 2015*

GEL'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
<b>31 December 2014</b>							
<b>ASSETS</b>							
Cash and cash equivalents	1,442	-	-	-	-	29	1,471
Loans to customers	2,549	1,248	2,063	7,800	45	-	13,705
Other financial assets	-	-	-	-	-	76	76
<b>Total Assets</b>	<b>3,991</b>	<b>1,248</b>	<b>2,063</b>	<b>7,800</b>	<b>45</b>	<b>105</b>	<b>15,252</b>
<b>LIABILITIES</b>							
Loans and borrowings	(6,308)	(1,027)	(458)	(2,331)	-	-	(10,124)
Other financial liabilities	(13)	-	-	-	-	-	(13)
<b>Total Liabilities</b>	<b>(6,321)</b>	<b>(1,027)</b>	<b>(458)</b>	<b>(2,331)</b>	<b>-</b>	<b>-</b>	<b>(10,137)</b>
<b>Net position</b>	<b>(2,330)</b>	<b>221</b>	<b>1,605</b>	<b>5,469</b>	<b>45</b>	<b>105</b>	<b>5,115</b>

*Average effective interest rates*

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2015 and 2014. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2015	2015	2015	2014
	Average effective interest rate, %	Average effective interest rate, %	Average effective interest rate, %	Average effective interest rate, %
	GEL	USD	EUR	USD
<b>Interest bearing assets</b>				
Loans to customers	166%	30%	-	31%
<b>Interest bearing liabilities</b>				
Loans and borrowings	-	12%	14%	13%

*Interest rate sensitivity analysis*

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2015 and 2014, is as follows:

	2015	2014
	GEL	GEL
100 bp parallel fall	(71)	1
100 bp parallel rise	71	(1)

(ii) **Currency risk**

The Group has assets and liabilities denominated in foreign currency.

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the currency exposure structure of financial assets and liabilities as at 31 December 2015:

	<b>GEL</b>	<b>USD</b>	<b>EUR</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	557	3,390	19	3,966
Loans to customers	5,720	13,991	-	19,711
Other financial assets	477	-	-	477
<b>Total assets</b>	<b>6,754</b>	<b>17,381</b>	<b>19</b>	<b>24,154</b>
<b>LIABILITIES</b>				
Loans and borrowings	-	(20,001)	(157)	(20,158)
Other financial liabilities	(70)	(22)	(9)	(101)
<b>Total liabilities</b>	<b>(70)</b>	<b>(20,023)</b>	<b>(166)</b>	<b>(20,259)</b>
<b>Net position</b>	<b>6,684</b>	<b>(2,642)</b>	<b>(147)</b>	<b>3,895</b>

The following table shows the currency structure of financial assets and liabilities as at 31 December 2014:

	<b>GEL</b>	<b>USD</b>	<b>EUR</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	29	1,350	4	1,383
Loans to customers	241	13,464	-	13,705
Other financial assets	76	-	-	76
<b>Total assets</b>	<b>346</b>	<b>14,814</b>	<b>4</b>	<b>15,164</b>
<b>LIABILITIES</b>				
Loans and borrowings	-	(10,124)	-	(10,124)
Other financial liabilities	(12)	(1)	-	(13)
<b>Total liabilities</b>	<b>(12)</b>	<b>(10,125)</b>	<b>-</b>	<b>(10,137)</b>
<b>Net position</b>	<b>334</b>	<b>4,689</b>	<b>4</b>	<b>5,027</b>



The following significant exchange rates were applied during the year:

in GEL	Average rate		Reporting date spot rate	
	2015	2014	2015	2014
USD 1	2.2702	1.7659	2.3949	1.8636
EUR 1	2.5204	2.3462	2.6169	2.2656

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2015 and 2014 would have increased (decreased) profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2015 GEL'000	2014 GEL'000
10% appreciation of USD against GEL	(225)	835
10% appreciation of EUR against GEL	(12)	-

A strengthening of the GEL against the above currencies at 31 December 2015 and 2014 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

**(c) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group has policies and procedures in place to manage credit exposures, including the establishment of a Credit Committees, the analytical bodies responsible for analysing the information in the loan applications, assessing and reducing the credit risks. The credit policy (in form of Credit Manual) is reviewed and approved by the Supervisory Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

The Credit Committee is authorized to make the final decision about financing or rejecting the loan applications. The loans presented to the Committee for approval are based on limits established by the credit policy.

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

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

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 10.

As at 31 December 2015 the Group has 3 debtors or groups of connected debtors (2014: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

**(d) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Supervisory Boards.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining liquidity and funding contingency plans

Liquidity position is monitored by the Finance Department. Under the normal market conditions, information on the liquidity position are presented to the Supervisory board on a weekly basis. Decisions on liquidity management are made by the Supervisory board and implemented by the Finance Department.

The following tables show the undiscounted cash flows on financial liabilities and on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liabilities.

The analysis for undiscounted cash flows on financial liabilities as at 31 December 2015:

GEL'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	1-5 Years	Total gross amount outflow	Carrying amount
<b>Non-derivative liabilities</b>							
Loans and borrowings	6,524	4,595	2,189	2,687	5,280	21,275	20,158
Other financial liabilities	101	-	-	-	-	101	101
<b>Total financial liabilities</b>	<b>6,589</b>	<b>4,521</b>	<b>2,076</b>	<b>2,615</b>	<b>5,575</b>	<b>21,376</b>	<b>20,259</b>

The analysis for undiscounted cash flows on financial liabilities as at 31 December 2014:

GEL'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	1-5 Years	Total gross amount outflow	Carrying amount
<b>Non-derivative liabilities</b>							
Loans and borrowings	5,981	436	1,135	608	2,529	10,690	10,124
Other financial liabilities	13	-	-	-	-	13	13
<b>Total financial liabilities</b>	<b>5,994</b>	<b>436</b>	<b>1,135</b>	<b>608</b>	<b>2,529</b>	<b>10,703</b>	<b>10,137</b>

The following tables provide an analysis, by expected maturities, of amounts recognized in the consolidated statement of financial position as at 31 December 2015:

GEL'000	Demand and less than 1 month	From 1 to 3 month	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
<b>Non-derivative assets</b>							
Cash and cash equivalents	3,966	-	-	-	-	-	3,966
Loans to customers	9,324	647	3,034	4,069	-	2,637	19,711
Property and equipment	-	-	-	-	424	-	424
Intangible assets	-	-	-	-	47	-	47
Deferred tax assets	-	-	-	-	315	-	315
Other assets	651	-	-	-	1,291	-	1,942
<b>Total non-derivative assets</b>	<b>13,941</b>	<b>647</b>	<b>3,034</b>	<b>4,069</b>	<b>2,077</b>	<b>2,637</b>	<b>26,405</b>
<b>Non-derivative liabilities</b>							
Loans and borrowings	6,511	4,276	6,871	2,500	-	-	20,158
Current tax liability	-	-	708	-	-	-	708
Other liabilities	115	-	-	-	-	-	115
<b>Total non-derivative liabilities</b>	<b>6,626</b>	<b>4,276</b>	<b>7,579</b>	<b>2,500</b>	<b>-</b>	<b>-</b>	<b>20,981</b>
<b>Net position</b>	<b>7,315</b>	<b>(3,629)</b>	<b>(4,545)</b>	<b>1,569</b>	<b>2,077</b>	<b>2,637</b>	<b>5,424</b>

The table below shows an analysis, by expected maturities, of the amounts recognized in the consolidated statement of financial position as at 31 December 2014:

<b>GEL'000</b>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 month</b>	<b>From 3 to 12 months</b>	<b>From 1to 5 years</b>	<b>No maturity</b>	<b>Overdue</b>	<b>Total</b>
<b>Non-derivative assets</b>							
Cash and cash equivalents	1,471	-	-	-	-	-	1,471
Loans to customers	488	1,276	3,356	7,800	-	785	13,705
Property and equipment	-	-	-	-	326	-	326
Intangible assets	-	-	-	-	43	-	43
Deferred tax assets	-	-	-	-	43	-	43
Other assets	108	-	-	-	719	-	827
<b>Total non-derivative assets</b>	<b>2,067</b>	<b>1,276</b>	<b>3,356</b>	<b>7,800</b>	<b>1,131</b>	<b>785</b>	<b>16,415</b>
<b>Non-derivative liabilities</b>							
Loans and borrowings	5,950	358	1,485	2,331	-	-	10,124
Current tax liability	-	-	191	-	-	-	191
Other liabilities	146	-	-	-	-	-	146
<b>Total non-derivative liabilities</b>	<b>6,096</b>	<b>358</b>	<b>1,676</b>	<b>2,331</b>	<b>-</b>	<b>-</b>	<b>10,461</b>
<b>Net position</b>	<b>(4,029)</b>	<b>918</b>	<b>1,680</b>	<b>5,469</b>	<b>1,131</b>	<b>785</b>	<b>5,954</b>

## 17 Capital management

The Group's objectives when maintaining capital are:

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

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

The Company is in compliance with minimum statutory capital requirement of GEL 250,000 as defined by the National Bank of Georgia as at 31 December 2015 and 31 December 2014..

## **18 Contingencies**

### **(a) Insurance**

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

### **(b) Litigation**

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

### **(c) Taxation contingencies**

The taxation system in Georgia continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after four years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## **19 Related party transactions**

### **(a) Control relationships**

The Group is equally owned by three individuals, who are also the ultimate controlling parties.

### **(b) Transactions with the members of the Directors and Supervisory Boards**

Total remuneration included in personnel expenses for the years ended 31 December 2015 and 2014 is as follows:

	<b>2015</b>	<b>2014</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Salaries and bonuses	<b>1,117</b>	<b>749</b>

**(c) Transactions with owners**

The outstanding balances and related profit or loss amounts of transactions for the year ended 31 December 2015 and 2014 with the owners are as follows:

	Note	2015 GEL'000	2014 GEL'000
<b>Statement of financial position</b>			
<b>LIABILITIES</b>			
Loans and borrowings	13	4,311	2,628
<b>Profit (loss)</b>			
Interest expense		(832)	(167)

The majority of balances resulting from transactions with related parties mature within one year. Transactions with related parties are not secured.

## 20 Financial assets and liabilities: fair values and accounting classifications

### Accounting classifications and fair values

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Group has determined fair values using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to

sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 19%-36% are used for discounting future cash flows from loans to customers;
- discount rates of 10%-14% are used for discounting future cash flows from loans and borrowings.

As at 31 December 2015 and 2014, the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

The Group estimates the fair value of financial assets and liabilities to be not materially different from their carrying values.

## **21 Events after the reporting period**

In January 2016 the Group declared and paid dividends of GEL 826 thousand.

In April 2016 the 100% shareholder of the Company became "CC Continental City Capital LTD", registered in Cyprus. As a result of the change, the ultimate shareholders of the Group are as follows: Rati Chelidze – 50% (Georgia), Vika Bashirov – 16.68% (Georgia), Guy Ben-Levy – 16.66% (Israel) and David Uzarashvili - 16.66% (Georgia).

In April 2016 the Group declared and paid dividends of GEL 1,716 thousand.

In August 2016 the Group declared and paid dividends of GEL 1,000 thousand.

During January – August 2016, the Group repaid borrowings of USD 1,967 thousand and EUR 60 thousand, which was included in loans and borrowings as unsecured loans from individuals and unsecured loans from related parties as at 31 December 2015. During the same period the Group obtained unsecured borrowings of USD 2,623 thousand and EUR 100 thousand from individuals and related parties.

On 13 May 2016 the Parliament of Georgia passed with its third and final reading the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has already entered into force and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2019. The introduction of this legislation will have a significant impact on the current and deferred taxes of entities operating in Georgia.