Continental City Credit Group

Consolidated Financial Statements and
Independent Auditor’s Report
For the Year Ended December 31, 2016

CONTINENTAL CITY CREDIT GROUP

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CONTINENTAL CITY CREDIT GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of LLC Continental City Credit (the "Company") and its subsidiary (the "Group") as at December 31, 2016, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with Georgian legislation and accounting standards of Georgia;
- Taking such steps that are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended December 31, 2016 were authorized for issue on August 1, 2017 by the Management Board of the Group.

On behalf of the Management Board:

Giorgi Goguadze
Chief Executive Officer

28 September, 2017
Tbilisi, Georgia

Iza Tsiklauri
Chief Accountant

28 September, 2017
Tbilisi, Georgia

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Continental City Credit Group:

Opinion

We have audited the consolidated financial statements of LLC Continental City Credit (the "Company") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated Financial Statements* section of our report. We are independent of the Group 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 consolidated financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The financial statements of Continental City Credit LLC for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on August 17, 2016.

We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of Continental City Credit LLC and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements taken as a whole.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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Deloitte.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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.

Deloitte & Touche

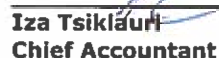
28 September, 2017
Tbilisi, Georgia

CONTINENTAL CITY CREDIT GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016
(in *thousands of Georgian Lari*)

	Notes	December 31, 2016	December 31, 2015
ASSETS:			
Cash and cash equivalents	5	2,412	3,966
Loans to customers	6	23,549	19,711
Property and equipment	7	380	424
Intangible assets		25	47
Deferred income tax assets	16	758	315
Current income tax assets		63	-
Other assets	8	2,688	1,942
TOTAL ASSETS		**29,875**	**26,405**
LIABILITIES AND EQUITY			
LIABILITIES:			
Borrowed funds	9	23,105	20,158
Current income tax liability		1,263	708
Other liabilities	10	268	115
Total liabilities		**24,636**	**20,981**
EQUITY:			
Equity attributable to owners of the parent:			
Charter capital	11	4,800	4,800
Retained earnings		(160)	539
Total equity attributable to owners of the parent		4,640	5,339
Non-controlling interest		599	85
Total equity		**5,239**	**5,424**
TOTAL LIABILITIES AND EQUITY		**29,875**	**26,405**

On behalf of the Management Board:



Giorgi Goguadze
Chief Executive Officer

28 September, 2017

Iza Tsiklauri
Chief Accountant

28 September, 2017

The notes on pages 8-42 form an integral part of these financial statements.

CONTINENTAL CITY CREDIT GROUP

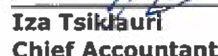
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016
(in *thousands of Georgian Lari*)

	Notes	December 31, 2016	December 31, 2015
Continuing operations			
Interest income	12	20,779	10,505
Interest expense	12	(2,524)	(2,141)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING FINANCIAL ASSETS		**18,255**	**8,364**
Provision for impairment losses on interest bearing assets	6	(3,312)	(2,040)
NET INTEREST INCOME		**14,943**	**6,324**
Net gain/(loss) on foreign exchange operations	13	(700)	839
Fee and commission income		-	5
Fee and commission expense		(101)	(38)
Other income, net	14	254	122
NET NON-INTEREST INCOME		**(547)**	**928**
OPERATING INCOME		14,396	7,252
OPERATING EXPENSES	15	(6,862)	(4,062)
PROFIT BEFORE INCOME TAX		**7,534**	**3,190**
Income tax expense	16	(1,502)	(720)
NET PROFIT FOR THE YEAR		**6,032**	**2,470**
Attributable to:			
Owners of the parent		5,518	2,402
Non-controlling interest		514	68

On behalf of the Management Board:

Giorgi Goguadze
Chief Executive Officer

27 September, 2017



Iza Tsikhauri
Chief Accountant

27 September, 2017

The notes on pages 8-42 form an integral part of these financial statements.

CONTINENTAL CITY CREDIT GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016
(in *thousands of Georgian Lari*)

	Share capital	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interest	Total Equity
January 1, 2015	**4,800**	**1,157**	**5,957**	**(3)**	**5,954**
Profit for the period	-	2,402	2,402	68	2,470
Increase in subsidiary charter capital by NCI	-	-	-	20	20
Dividends disbursed	-	(3,020)	(3,020)		(3,020)
December 31, 2015	**4,800**	**539**	**5,339**	**85**	**5,424**
Profit for the period	-	5,518	5,518	514	6,032
Dividends disbursed	-	(6,217)	(6,217)		(6,217)
December 31, 2016	**4,800**	**(160)**	**4,640**	**599**	**5,239**

On behalf of the Management Board:

Giorgi Goguadze
Chief Executive Officer

28 September, 2017

Iza Tsiklauri
Chief Accountant

28 September, 2017

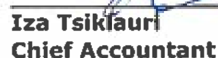
The notes on pages 8-42 form an integral part of these financial statements.

CONTINENTAL CITY CREDIT GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(in thousands of Georgian Lari)

	December 31, 2016	December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest receipts	18,471	9,433
Interest payments	(2,341)	(2,158)
Fee and commission receipts	19	(33)
Other payments	(449)	(28)
Personnel expenses payments	(3,801)	(2,030)
Other general administrative expenses payments	(4,456)	(1,823)
(Increase) decrease in operating assets		
Loans to customers	(5,903)	(2,902)
Other assets	(60)	(1,117)
(Increase) decrease in operating liabilities		
Other liabilities	-	(140)
Net cash used operating activities before income tax paid	**1,480**	**(798)**
Income tax paid	(787)	(475)
Cash flows received from/(used in) operations	**693**	**(1,273)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(213)	(280)
Purchases of intangible assets	-	(8)
Cash flows used in investing activities	**(213)**	**(288)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Receipts from loans and borrowings	15,030	23,916
Repayment of loans and borrowings	(11,076)	(17,358)
Dividends Paid	(6,217)	(3,020)
Cash flows from financing activities	**(2,263)**	**3,538**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(1,783)**	**1,977**
CASH AND CASH EQUIVALENTS, at beginning of the year	**3,966**	**1,471**
Effect of foreign exchange rate changes on cash and cash equivalents	229	518
CASH AND CASH EQUIVALENTS, at end of the year	**2,412**	**3,966**

On behalf of the Management Board:



Giorgi Goguadze
Chief Executive Officer

28 September, 2017

Iza Tsiklauri
Chief Accountant

28 September, 2017

The notes on pages 8-42 form an integral part of these financial statements

1. ORGANISATION

(a) Organization and operations

LLC Continental City Credit (the "Company") was incorporated in Georgia in 2012. The Company is regulated by the National Bank of Georgia (the "NBG") and conducts its business in accordance with the "Georgian law on Microfinance Organisations". Its primary business consists of disbursing consumer and pawnshop micro loans.

The registered office of the Company is located on 23-23a Chavchavadze Avenue, Tbilisi, Georgia.

In 2014 the Company established a subsidiary LLC CC Loan. The entity's primary business is online micro lending. Since December 2016 the entity is regulated by the NBG.

As at December 31, 2016 CC Continental City Capital LTD, Cyprus owned 100% of the Company and was ultimate controlling party.

Ultimate individual shareholders having control over the operations of CC Continental City Capital LTD are Rati Chelidze (50% of shares), Vika Bashirov (16.66% of shares), Guy Ben-Levy (16.66% of shares) and David Uzarashvili (16.66% of shares).

As at December 31, 2015 the ultimate controlling party as well as ultimate individual shareholders were: Michael Bashirov (33.33% of shares), David Uzarashvili (33.33% of shares) and Gai Ben Levy (33.33% of shares).

(b) Operating environment

The Company's principal business activities are within Georgia. Since laws and regulations affecting the business environment in Georgia are subject to rapid changes, the Company's assets and operations could be at risk due to negative changes in the political and business environment.

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Tax, currency and customs legislation within Georgia are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Georgia. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

On December 29th, 2016 new legislation regarding online payday loans was introduced. Legislation, effective from January 15th, 2017 introduces upper cap of 100% on effective interest and prohibits cumulative amount of penalties and commission fees to exceed 150% of loan principal.

Throughout 2016 Georgia's neighboring countries, which are large trading partners of Georgia, have experienced significant and economic turmoil which has had a knock-on effect on the Georgian economy. This has resulted in a significant devaluation of the Georgian Lari against the US dollar and other major currencies by approximately 11%. (In US dollar terms this moved from 2.3949 as at December 31, 2015 to 2.6468 as at December 31 2016).

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements are presented in thousands of Georgian Lari ("GEL thousand"), unless otherwise indicated.

These consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Group and its subsidiary are registered in Georgia and maintain their accounting records in accordance with the Georgian law. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non–current) is presented in Note 20.

Functional currency

Items included in the consolidated financial statements of each of the Group’s entities are measured using the currency of the primary of the economic environment in which the entity operates (“the functional currency”). The functional currency of the Group is the Georgian Lari ("GEL"). The presentational currency of the consolidated financial statements of the Group is the GEL. All values are rounded to the nearest thousand GEL, except when otherwise indicated.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.
The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiary. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the consolidated financial statements of subsidiary to bring their accounting policies into line with the Group's accounting policies.

All intra-group liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and other comprehensive income and net assets of subsidiary not owned, directly or indirectly, by the Group.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and consolidated statement of other comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Revenue recognition

Recognition of interest income and expense

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Recognition of fee and commission income

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest

rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed.

All other commissions are recognized when services are provided.

Recognition of rental income

The Group's policy for recognition of income as a lessor is set out in the "Leases" section of this footnote.

Financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities(other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Loans and receivables

Loans and receivables (including due from financial institutions, loans to customers and other financial assets) that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Renegotiated loans

Where possible, the Group 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 any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually 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.

Write off of loans and receivables

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of profit or loss in the period of recovery.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities

Financial liabilities are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessor. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Company as lessee. Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and cash in bank with original maturity of less or equal to 90 days.

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. The Group views the repossessed assets as a form of settlement of amounts due under the defaulted loan and that it is an asset acquired and held for sale in the ordinary course of business.

Repossessed assets are initially recognized at fair value and subsequently measured at the lower of carrying amount and fair value less costs to sell.

Property and equipment

Initial cost of property and equipment is assessed based on actual expenses for their acquisition that comprise purchase price, including non-refundable purchase taxes and any directly attributed costs of bringing the assets to its working condition and location for intended use. Subsequent to initial recognition property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.
Depreciation is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Computers	25%
Furniture and office fixtures	25%
Vehicles	20%
Leasehold improvements	20-30%
Other	25%

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any 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 and other comprehensive income.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss and other comprehensive income when the asset is derecognized.

Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and consolidated statement of other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, property and equipment, loans to customers and provisions, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with other assets and liabilities are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from 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.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes

Georgia also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

Foreign currencies

In preparing the consolidated financial statements of the Group, transactions in currencies other than the Group's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

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

	December 31, 2016	**December 31, 2015**
GEL/1 US Dollar	2.6468	2.3949
GEL/1 Euro	2.7940	2.6169

Collateral

The Group obtains collateral in respect of customer liabilities where it is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, the Group management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its consolidated financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Georgia and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Useful lives of property and equipment and intangible assets

As described above, the Group reviews the estimated useful lives of property and equipment and intangible assets at the end of each annual reporting period. In determining the useful life of an asset, the management considers expected usage, estimated technical obsolescence, physical wear and tear, and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation/amortisation rates. During the financial year, the Group management has not changed useful lives of its property and equipment and intangible assets.

Recoverability of deferred tax assets.

According to changes in Georgian Tax Code from January 1, 2019 banks are obliged to pay income tax based on dividend disbursed. Consequently, there is an expectation that temporary differences will disappear beginning from that effective date. The carrying value of deferred tax assets amounted to GEL 758 thousand and GEL 315 thousand as at December 31, 2016 and 2015, respectively.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

Amendments to IFRSs affecting amounts reported in the consolidated financial statements. In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these consolidated financial statements.

- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception;*
- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations;*
- Amendments to IAS 1 *Disclosure Initiative;*
- Amendments to IAS 16 and IAS *38 Clarification of Acceptable Methods of Depreciation and Amortisation;*
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants;*
- IFRS 14 *Regulatory Deferral Accounts;*
- Amendments to IAS 27 – *Equity Method in Separate Financial Statements;*
- Annual Improvements to IFRSs 2012-2014 Cycle

Amendments to IAS 1 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that a group should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of consolidated financial statements to understand the impact of particular transactions, events and conditions on the Group's financial position and financial performance.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The Group has applied these amendments for the first time in the current year. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a. when the intangible asset is expressed as a measure of revenue; or
b. when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

As the Group already uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively, the application of these amendments has had no impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs - 2012-2014 Cycle

The Group has applied these amendments for the first time in the current year. The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendment also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*[2];
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*[2];
- IFRS 16 Leases[3]
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*[2];
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4];
- Amendments to IAS 7 – *Disclosure Initiative*[1];
- Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses*[1];
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[2];
- Amendments to IAS 40 – *Transfers of Investment Property*[2];
- Annual Improvements to IFRSs 2014-2016 Cycle.

[1] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

IFRS 9 Financial Instrument

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows

and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.
- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Group anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;

- Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. Furthermore, extensive disclosures are required by IFRS 15

The management of the Group anticipates that the application of IFRS 15 in the future may have a significant impact on the amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted.

The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify the following:

1. Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;
2. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible

temporary differences of that type, but separately from other types of deductible temporary differences;

3. The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
4. In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the prepayment or liability in respect of the income received in advance was recognised. If there is more than one advance payment or receipt the date of the transaction for each payment of receipt of advance consideration should be determined. The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities may elect to apply amendments either retrospectively or prospectively.

The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's financial statements as the Group currently uses the approach prescribed in IFRIC 22.

Annual Improvements to IFRSs 2014-2016 Cycle

This annual improvements package amended three standards:

The Amendments to IFRS 1 delete the short-term exemptions that related to disclosures about financial instruments, employee benefits and investment entities as the reporting period to which the exemptions applied have already passed and as such, these exemptions are no longer applicable. The amendments are effective for annual periods beginning on or after 1 January 2018.

The amendments to IFRS 12 clarify that concession from the requirement to provide summarised financial information in respect of interests in subsidiaries, associates or joint ventures classified as held for sale or included in a disposal group is the only concession available for such interests. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2017.

In accordance with IAS 28, a venture capital organisation and other similar entities may elect to measure investments in associates and joint ventures at FVTPL. In addition, an entity that is not an investment entity but has an interest in an associate or joint venture that is an investment entity, may, when applying the equity method, elect to retain the fair value measurement applied by that associate or joint venture to its own interests in subsidiaries. Amendments to IAS 28 clarify that such election should be made separately for each associate or joint venture at initial recognition. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2018. Early application is permitted.

The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

5. CASH AND CASH EQUIVALENTS

	December 31, 2016	December 31, 2015

Cash	36	29
Balances with banks with original maturities up to 90 days	2,376	3,937
Total cash and cash equivalents	**2,412**	**3,966**

6. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2016	December 31, 2015
Originated loans to customers	26,602	20,896
Accrued interest	2,599	1,170
Less allowance for impairment losses	(5,652)	(2,355)
Total loans to customers	**23,549**	**19,711**

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans to customers
January 1, 2015	**(315)**
Additional provisions recognized	(2,040)
December 31, 2015	**(2,355)**
Additional provisions recognized	(3,312)
Reversal of the previously recognized provision	15
December 31, 2016	**(5,652)**

The table below summarizes carrying value of loans to customers analyzed by type of collateral obtained by the Group:

	December 31, 2016	December 31, 2015
Loans collateralized by pledge of real estate	11,453	14,593
Unsecured loans	17,097	7,261
Other collateral	651	212
Total loans to customers	**29,201**	**22,066**

During the years ended December 31, 2016 and 2015 the Group received non-financial assets by taking possession of collateral it held as security. As at December 31, 2016 and 2015 such assets in amount of GEL 1,703 and GEL 1,292 (See Note 8), respectively, are included in other assets of the Group.

Analysis by credit quality of loans to customers outstanding as at December 31, 2016 and 2015 was as follows:

As at December 31, 2016	Gross loans	Provision for impairment	Net loans	Provision for impairment

				to gross loans
Loans collateralized by pledge of real estate				
Not past due	3,427	(207)	3,220	6%
Overdue:				
up to 30 days	1,190	(72)	1,118	6%
31 to 60 days	333	(20)	313	6%
61 to 90 days	2,215	(134)	2,081	6%
91 to 180 days	903	(55)	848	6%
over 180 days	3,385	(205)	3,180	6%
Total loans collateralized by pledge of real estate	**11,453**	**(693)**	**10,760**	**6%**
Other collateralized loans				
Not past due	607	(26)	581	4%
Overdue:				
up to 30 days	11	(3)	8	27%%
31 to 60 days	-	-	-	-
61 to 90 days	-	-	-	-
91 to 180 days	-	-	-	-
over 180 days	33	(7)	26	21%
Total other collateralized loans	**651**	**(36)**	**615**	**52%**
Unsecured loans				
Not past due				
Overdue:	7,027	(240)	6,787	3%
up to 30 days	1,396	(268)	1,128	19%
31 to 60 days	930	(285)	645	30%
61 to 90 days	2,580	(986)	1,594	38%
91 to 180 days	3,895	(1,875)	2,020	48%
over 180 days	1,269	(1,269)	-	100%
Total unsecured loans	**17,097**	**(4,923)**	**12,174**	**29%**
Total loans to customers	**29,201**	**(5,652)**	**23,549**	**19%**

December 31, 2015	**Gross loans**	**Provision for impairment**	**Net loans**	**Provision for impairment to gross loans**
Loans collateralized by pledge of real estate				
Not past due	7,884	(39)	7,845	0.5%
Overdue:				
up to 30 days	1,291	(6)	1,285	0.5%
31 to 60 days	348	(17)	331	4.9%
60 to 180 days	1,655	(166)	1,489	10.0%
180 to 360 days	2,560	(384)	2,176	15.0%
over 360 days	855	(196)	659	22.9%
Total loans collateralized by pledge of real estate	**14,593**	**(808)**	**13,785**	**5.5%**
Other collateralized loans				
Not past due	179	(1)	178	0.6%
Overdue:				
up to 30 days	-	-	-	-
31 to 60 days	-	-	-	-
60 to 180 days	7	(1)	6	14.3%
180 to 360 days	4	(1)	3	25.0%
over 360 days	22	(3)	19	13.6%
Total other collateralized loans	**212**	**(6)**	**206**	**2.8%**

Unsecured loans

Not past due	4,855	(242)	4,613	5.0%
Overdue:				
up to 30 days	1,145	(354)	791	30.9%
31 to 60 days	749	(519)	230	69.3%
60 to 180 days	346	(274)	72	79.2%
180 to 360 days	154	(140)	14	90.9%
over 360 days	12	(12)	-	100.0%
Total unsecured loans	**7,261**	**(1,541)**	**5,720**	**21.2%**
Total loans to customers	**22,066**	**(2,355)**	**19,711**	**10.7%**

As at December 31, 2016 and 2015 the Group had no exposure which individually exceeded 10% of the Group's equity.

7. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Computers	Vehicles	Furniture and office equipment	Leasehold improvements	Other	Total
At cost						
January 1, 2015	**64**	**167**	**64**	**216**	**52**	**563**
Additions	118	61	54	3	44	280
Disposals	-	(55)	(1)	-	-	(56)
December 31, 2015	**182**	**173**	**117**	**219**	**96**	**787**
Additions	33	221	2	15	-	271
Disposals	(63)	(61)	(57)	-	(3)	(184)
December 31, 2016	**152**	**333**	**62**	**234**	**93**	**874**
Accumulated depreciation						
January 1, 2015	**34**	**37**	**25**	**116**	**25**	**237**
Depreciation charge	28	34	18	11	50	141
Eliminated on disposals	-	(15)	-	-	-	(15)
December 31, 2015	**62**	**56**	**43**	**127**	**75**	**363**
Depreciation charge	25	61	13	54	12	165
Eliminated on disposals	(8)	(15)	(8)	-	(3)	(34)
December 31, 2016	**79**	**102**	**48**	**181**	**84**	**494**
Net book value						
As at December 31, 2015	**120**	**117**	**74**	**92**	**21**	**424**
As at December 31, 2016	**73**	**231**	**14**	**53**	**9**	**380**

As at December 31, 2016 and 2015 included in property and equipment were fully depreciated assets totaling GEL 86 and GEL 42 respectively.

8. OTHER ASSETS

Other assets comprise:

	December 31, 2016	December 31, 2015
Other financial assets:		
Accounts receivable	527	477

Total other financial assets	**527**	**477**
Other non-financial assets:		
Repossessed assets	1,703	1,292
Investment property	357	-
Advances paid	46	104
Other	55	69
Total other non-financial assets	**2,161**	**1,465**
Total other assets	**2,688**	**1,942**

Repossessed assets as at December 31, 2016 and 2015 include land and buildings in the amount of GEL 1,703 and GEL 1,292, respectively, which are measured at the lower of its carrying amount and fair value less cost to sell.

9. BORROWED FUNDS

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 20.

	December 31, 2016	**December 31, 2015**
Principal	23,080	20,144
Interest accrued	25	14
Total loans and borrowings	**23,105**	**20,158**
The Group's lender include:		
Non-current liabilities		
Unsecured loans from individuals	2,092	2,395
Unsecured loans from related parties	-	-
Secured loans from financial institutions	1,431	105
Total non-current liabilities	**3,523**	**2,500**
Current liabilities		
Unsecured loans from individuals	11,516	12,931
Unsecured loans from related parties	7,802	4,310
Secured loans from financial institutions	264	417
Total Current liabilities	**19,582**	**17,658**
Total loans and borrowings	**23,105**	**20,158**

a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				December 31,2016	
'000 GEL	**Currency**	**Nominal interest-rate**	**Year of maturity**	**Face Value**	**Carrying amount**
Unsecured loans from individuals	USD	9%-13%	On Demand*	13,608	13,648
Unsecured loans from individuals	EUR	-	-	-	-
Unsecured loans from related parties	USD	12%-14%	On Demand*	7,802	7,762

Secured loans from financial institutions***	USD	9%-10%	2017-2021	1,695	1,695
Total interest-bearing liabilities				**23,105**	**23,105**

The following table provides information by type of loans as at December 31, 2015.

				December 31,2015	
'000 GEL	**Currency**	**Nominal interest-rate**	**Year of maturity**	**Face Value**	**Carrying amount**
Unsecured loans from individuals	USD	10%-14%	2016-2018 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 institutions***	USD	9%-10%	2016-2017	522	522
Total interest-bearing liabilities				**20,158**	**20,158**

* 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 (2015: GEL 433 thousand), see note 8.

10. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2016	December 31, 2015
Other financial liabilities:		
Bonuses Payable	97	-
Other payables	171	101
Total other financial liabilities	**268**	**101**
Other non-financial liabilities:		
Other liabilities	-	14
Total other non-financial liabilities:	-	**14**
Total other liabilities	**268**	**115**

11. CHARTER CAPITAL

As at December 31, 2016 and 2015, the Group's total authorized charter capital was GEL 5,000 thousand out of which GEL 4,800 thousand was paid.

12. NET INTEREST INCOME

	December 31, 2016	December 31, 2015
Interest income comprises:		
Financial assets recorded at amortized cost:		
Impaired financial assets	14,066	6,220
Unimpaired financial assets	6,713	4,285

Total interest income	**20,779**	**10,505**
Interest income on financial assets recorded at amortized cost comprises:		
Loans to customers	20,730	10,367
Due from financial institutions	49	138
Total interest income on financial assets recorded at amortized cost	**20,779**	**10,505**
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	(2,524)	(2,141)
Total interest expense	**(2,524)**	**(2,141)**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Borrowed funds	(2,524)	(2,141)
Total interest expense on financial liabilities recorded at amortized cost	**(2,524)**	**(2,141)**
Net interest income before provision for impairment losses on interest bearing financial assets	**18,255**	**8,364**

13. NET GAIN/(LOSS) ON FOREIGN EXCHANGE OPERATIONS

Net gain/(loss) on foreign exchange operations comprises:

	December 31, 2016	December 31, 2015
Dealing, net	(4)	(127)
Translation differences, net	(696)	966
Total net gain/(loss) on foreign exchange operations	**(700)**	**839**

14. OTHER INCOME, NET

Other income / (expense) comprises:

	December 31, 2016	December 31, 2015
Income from operating lease	85	85
Other income	169	37
Total other income, net	**254**	**122**

15. OPERATING EXPENSES

Operating expenses comprise:

	December 31, 2016	December 31, 2015

Staff costs	3,609	2,031
Marketing and advertising	1,382	613
Rent	508	388
Utilities and Communication	289	167
Consumables and office supplies	210	18
Depreciation and amortization	187	163
Professional expenses	146	58
Loan intermediation fee	42	148
Legal expenses	32	132
Stationary expenses	12	5
Fee and commission expense	10	149
Taxes other than on income	7	6
Repairs and maintenance	5	51
Security expenses	5	4
Other expenses	418	129
Total operating expenses	**6,862**	**4,062**

16. INCOME TAXES

The Group provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Georgia, which differs from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences mostly relate to different methods of income and expense recognition as well as to recorded values of certain assets and liabilities.

The tax rate used for the reconciliations below is the corporate tax rate of 15% payable by corporate entities in Georgia on taxable profits under tax law in that jurisdiction.

Deferred income tax assets/(liabilities) on temporary differences as at December 31, 2016 and 2015 comprise:

	December 31, 2016	**December 31, 2015**
Loans to customers	854	346
Property and equipment	(30)	(36)
Borrowings	-	2
Other liabilities	(71)	-
Intangible assets	5	3
Deferred income tax asset on temporary differences	758	315
Deferred income tax liability on temporary differences	-	-
Net deferred income tax asset	**758**	**315**

Relationships between tax expenses and accounting profit for the years ended December 31, 2016 and 2015 are explained as follows:

	December 31, 2016	**December 31, 2015**

Profit before income tax	7,534	3,190
Tax at the statutory tax rate (15%)	1,130	479
Permanent differences	372	241
Income tax expense	**1,502**	**720**
Current income tax expense	1,945	992
Deferred income tax benefit	(443)	(272)
Income tax expense	**1,502**	**720**

	December 31, 2016	**December 31, 2015**
As at January 1 – deferred income tax asset	**315**	**43**
Deferred income tax benefit recognized in profit or loss	443	272
As at December 31- deferred income tax assets	**758**	**315**

In June 2016 the Georgian parliament adopted and the president signed into changes to the corporate tax code, with changes applicable on January 1, 2019. The code is applicable for Georgian companies and permanent establishments ("PEs") of resident companies, apart from certain financial institutions and insurance companies.

The previous profit tax regime, under which companies were subject to tax on their annual taxable profits, is now changed to a system where tax will have to be paid only if corporate profits are distributed.

The change has had an impact on deferred tax of the Companies as it abolishes temporary differences between carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Due to the changes of the tax legislation balance of deferred tax attributable to previously recognized temporary differences arising from prior periods should be fully written off till January 1, 2019.

17. TRANSACTIONS WITH RELATED PARTIES

Related parties include owners and entities under common ownership and control with the Group and members of key management personnel.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effective on the same terms and conditions as transactions between unrelated parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following balances and transactions with related parties:

	December 31, 2016		**December 31, 2015**	
	Related party balances	**Total category as per the consolidated financial statements caption**	**Related party balances**	**Total category as per the consolidated financial statements caption**
Loans to customers	56	29,201	-	22,066
- other related parties	56	-	-	
Allowance for impairment losses on loans to customers	-	(5,652)	-	(2,355)
- other related parties	-		-	
Borrowed funds	7,802	23,155	4,311	20,158

	December 31, 2016		December 31, 2015	
	Related party balances	**Total category as per the consolidated financial statements caption**	**Related party balances**	**Total category as per the consolidated financial statements caption**
- owners	6,245		4,311	
- Key management personnel	198			
- other related parties	1,359		-	

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

	December 31, 2016		December 31, 2015	
	Related party transactions	**Total category as per the consolidated financial statements caption**	**Related party transactions**	**Total category as per the consolidated financial statements caption**
Key management personnel compensation:				
- short-term employee benefits	840	3,609	1,117	2,031

Included in the consolidated statement of profit or loss for the years ended December 31, 2016 and 2015 are the following amounts which were recognized in transactions with related parties:

	December 31, 2016		December 31, 2015	
	Related party transactions	**Total category as per the consolidated financial statements caption**	**Related party transactions**	**Total category as per the consolidated financial statements caption**
Interest income	4	20,896	-	10,505
- other related parties	4		-	
Interest expense	(835)	(2,524)	(832)	(2,141)
- owners	(665)		(832)	
- Key management personnel	(21)		-	
- other related parties	(149)		-	

18. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company is a party to financial instruments with on-balance sheet risk in order to meet the needs of their counterparties. These instruments, involving varying degrees of credit risk, are reflected in the statement of financial position.

Capital commitments - The Company did not have material capital commitments as at December 31, 2016.

Operating lease commitments – As at December 31, 2016 the Company did not have any non-cancellable operating lease commitments.

Legal proceedings - In the ordinary course of business, the Company 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.

Taxation – Commercial legislation of Georgia including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Company's business activities was to be challenged by the tax authorities, the Company may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Company believes that it has accrued all tax amounts due and therefore no allowance has been made in the special purpose financial statements.

Such uncertainty could, in particular, be attributed to tax treatment of financial instruments/derivatives and determination of market price of transactions for transfer pricing purposes. It could also lead to temporary taxable differences occurred due to loan impairment provisions and income tax liabilities being treated by the tax authorities as understatement of the tax base. The management of the Company is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Georgian transfer pricing legislation was amended starting from January 1, 2014 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. The impact of challenge of the Company's transfer pricing positions by the tax authorities cannot be reliably estimated.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets and liabilities for which fair value approximates carrying value

Cash and cash equivalents – Cash and cash equivalents are carried at amortized cost which approximates their current fair value.

Other financial assets and financial liabilities – Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

Loans to customers and Borrowed funds– The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received/paid discounted at current interest rates of new instruments with similar credit risk and remaining maturity. Discount rates depend on currency, maturity of the instrument and credit risk of the counterparty.

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.

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

	Fair Value	December 31, 2016		December 31, 2015	
	Hierarchy	Carrying value	Fair value	Carrying value	Fair value
Loans to customers	3	23,549	23,549	19,711	19,711
Borrowed funds	3	23,105	23,105	20,158	20,158

20. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to the following:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk;

To enable and apply high-performance risk policies, the Group has established a risk management framework, whose main purpose is to protect the Group from unacceptable level of risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Committees and the Group's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Risk Management Department of Head Office. Daily risk management is performed by the Heads of Credit Departments.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by a borrower are approved by the Management Board. Actual exposures against limits are monitored on a regular basis.

Credit risk assessment

Credit risk of the portfolio of loans is assessed on collective basis using roll rates model. Portfolio is divided into overdue buckets. Observation period for each bucket is taken as one year from December 2015. During the observation period by the state of end of months and with account of exposure of each loan, the one month migration matrixes are generated. In order to exclude portfolio growth effect, the loans disbursed from December 2015 are excluded from the statistics.

Based on migration matrix probability of default is calculated for each bucket.

Loss given default is calculated by taking into consideration cash recoveries and collateral recoveries (adjusted by expenditures related to collateral realization).

Maximum exposure of credit risk

The following table presents the maximum exposure to credit risk of financial assets. The maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral.

	December 31, 2016	December 31, 2015
Cash and cash equivalents	2,412	3,966
Loans to customers	23,549	19,711
Other financial assets	527	477

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are mortgages over residential properties or other assets. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Liquidity risk

Liquidity risk management

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

The Management board controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows.

Further is analysis of liquidity and interest rate risks:
(a) term to maturity of financial liabilities, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Group will be liable to redeem the liability;
(b) estimated term till maturity of financial assets, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Group expects that cash flows will be received in the different time.

An analysis of the liquidity by classes of financial assets and financial liabilities, and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2016 Total
FINANCIAL ASSETS						
Cash and cash equivalents	2,412	-	-	-	-	2,412
Loans to customers	15,579	1,521	3,116	3,333	-	23,549
Other financial assets	527	-	-	-	-	527
Total financial assets	**18,518**	**1,521**	**3,116**	**3,333**	**-**	**26,488**

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2016 Total
FINANCIAL LIABILITIES						
Borrowed funds	5,254	751	13,577	3,523	-	23,105
Other financial liabilities	268	-	-	-	-	268
Total financial liabilities	**5,522**	**751**	**13,577**	**3,523**	**-**	**23,373**
Net position	**12,996**	**770**	**(10,461)**	**(190)**	**-**	**3,115**

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2015 Total
FINANCIAL ASSETS						
Cash and cash equivalents	3,966	-	-	-	-	3,966
Loans to customers	11,961	647	3,034	4,069	-	19,711
Other financial assets	477	-	-	-	-	477
Total financial assets	**16,404**	**647**	**3,034**	**4,069**	**-**	**24,154**
FINANCIAL LIABILITIES						
Borrowed funds	10,787	1,909	4,962	2,500	-	20,158
Other financial liabilities	101	-	-	-	-	101
Total financial liabilities	**10,888**	**1,909**	**4,962**	**2,500**		**20,259**
Net position	**5,516**	**(1,262)**	**(1,928)**	**1,569**	**-**	**3,895**

An analysis of liquidity and interest rate risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group. The amounts disclosed in these tables do not correspond to the amounts recorded in the consolidated statement of financial position as the presentation below includes a maturity analysis for financial assets and liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the consolidated statement of financial position under the effective interest rate method.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2016 Total
FINANCIAL LIABILITIES						
Borrowed funds	4,347	2,425	14,273	3,701	-	24,746
Other financial liabilities	268	-	-	-	-	268
TOTAL FINANCIAL LIABILITIES	**4,615**	**2,425**	**14,273**	**3,701**	**-**	**25,014**

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2015 Total
FINANCIAL LIABILITIES						
Borrowed funds	6,524	4,595	4,876	5,280	-	21,275
Other financial liabilities	101	-	-	-	-	101
TOTAL FINANCIAL LIABILITIES	**6,625**	**4,595**	**4,876**	**5,280**	**-**	**21,376**

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:

31 December 2016	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Non-interest bearing	Carrying amount
Assets:							
Cash and cash equivalents	1,504	-	-	-	-	908	2,412
Loans to customers	17,100	992	2,124	3,333	-	-	23,549
Other financial assets	-	-	-	-	-	527	527
TOTAL ASSETS	**18,604**	**992**	**2,124**	**3,333**	**-**	**1,435**	**26,488**
Non-derivative liabilities:							
Loans and borrowings	6,005	4,165	9,412	3,523	-	-	23,105
Other financial liabilities	-	-	-	-	-	268	268
TOTAL LIABILITIES	**6,005**	**4,165**	**9,412**	**3,523**	**-**	**268**	**23,373**
NET POSITION	**12,599**	**(3,173)**	**(7,288)**	**(190)**	**-**	**1,167**	**3,115**

31 December 2015	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Non-interest bearing	Carrying amount
Assets:							
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
TOTAL ASSETS	**16,647**	**1,531**	**1,401**	**4,069**	**-**	**506**	**24,154**
Non-derivative liabilities:							
Loans and borrowings	10,787	1,909	4,962	2,500	-	-	20,158
Other financial liabilities	101						101
TOTAL LIABILITIES	**10,888**	**1,909**	**4,962**	**2,500**	-	-	**20,259**
NET POSITION	**5,759**	**(378)**	**(3,561)**	**1,569**	-	**506**	**3,895**

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at December 31, 2016 and 2015. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2016 Average effective interest rate, %	**2016 Average effective interest rate, %**	**2016 Average effective interest rate, %**	**2015 Average effective interest rate, %**	**2015 Average effective interest rate, %**	**2015 Average effective interest rate, %**
Interest bearing assets	**GEL**	**USD**	**EUR**	**GEL**	**USD**	**EUR**
Loans to customers	119%	30%	0%	166%	30%	0%
Interest bearing liabilities						
Loans and borrowings	0%	11%-14%	15%	0%	12%	14%

Market risk

Market risk is the risk that the Group's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk and other pricing risks that the Group is exposed to. There have been no changes as to the way the Group measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

Interest rate and market risks are managed by matching the Group's interest rate position, which provides the Group with a positive interest margin. Management board conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

Interest rate sensitivity

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. Management of the group conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact of interest rate 5 basis points changes on profit before tax and equity based on financial assets and liabilities values as at December 31, 2016; and 2015 were as following:

	December 31, 2016		**December 31, 2015**	
	Interest rate +5%	**Interest rate -5%**	**Interest rate +5%**	**Interest rate -5%**
Net impact on profit before tax	(572)	572	195	(195)

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Management controls currency risk by monitoring the open currency position on the estimated basis of Georgian Lari devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency.

The Group's open positions by the major currencies in which it holds the assets and liabilities are presented below:

	GEL	**USD** USD 1 = GEL 2.6468	**EUR** EUR 1 = GEL 2.7940	**December 31, 2016 Total**
FINANCIAL ASSETS				
Cash and cash equivalents	285	2,127	-	2,412
Loans to customers	11,675	11,874	-	23,549
Other financial assets	527	-	-	527
TOTAL FINANCIAL ASSETS	**12,487**	**14,001**	**-**	**26,488**
FINANCIAL LIABILITIES				
Other borrowed funds	-	23,006	99	23,105
Other financial liabilities	258	-	10	268
TOTAL FINANCIAL LIABILITIES	**258**	**23,006**	**109**	**23,373**
OPEN POSITION	**12,229**	**(9,005)**	**(109)**	**3,115**

	GEL	**USD** USD 1 = GEL 2.3949	**EUR** EUR 1 = GEL 2.6169	**December 31, 2015 Total**
FINANCIAL ASSETS				
Cash and cash equivalents	557	3,390	19	3,966
Loans to customers	5,720	13,991	-	19,711
Other financial assets	477	-	-	477
TOTAL FINANCIAL ASSETS	**6,754**	**17,381**	**19**	**24,154**
FINANCIAL LIABILITIES				
Other borrowed funds	-	20,001	157	20,158
Other financial liabilities	70	22	9	101
TOTAL FINANCIAL LIABILITIES	**70**	**20,023**	**166**	**20,259**
OPEN POSITION	**6,684**	**(2,642)**	**(147)**	**3,895**

Currency risk sensitivity

The following table details the Group's sensitivity to a 30% increase and decrease in the USD against the GEL. 30% is the sensitivity rate used when reporting foreign currency risk internally to the key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 30% change in foreign currency rates.

Impact on net profit and equity based on asset values as at December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
	GEL/USD +30%	GEL/USD -30%	GEL/USD +30%	GEL/USD -30%
Impact on profit or loss before tax	(900)	900	(793)	793

***Limitations of* sensitivity analysis**

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margins and collateral requirements. With respect to undrawn loan commitments the Group is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

21. SUBSEQUENT EVENTS

On December 29, 2016 new legislation regarding online payday loans was introduced. Legislation is effective from January 15th, 2017 and introduces upper cap of 100% on annual effective interest rate and prohibits cumulative amount of penalties and commission fees to exceed 150% of the loan exposure. This change lead CC Loan LLC to lower interest rates on short-term loans from 19% to 5.4% per month.

Subsequent to the reporting period, Georgian Lari has continued to strengthen against US Dollar. At September 28, 2017, official exchange rate equaled to 2.4817 Georgian Lari per 1 US Dollar.

On July 9, 2017, CC Loan LLC formed an agreement with a debt collection company for the sale of part of its loan portfolio (mostly allocated in the ageing groups of 61 days and more). The total

consideration negotiated for the assets sold amounted to GEL 10,083,467 which is equivalent to the nominal value of the loans sold, including accrued interest. The net value of the sold loans according to the books of the CC Loan LLC as of the date of sale amounted to GEL 5,581,155. The loan impairments calculation according to the ageing groups is given in Note 6.

The sale of the loan portfolio was agreed in two parts (two sales agreements). With the first sales agreement signed on July 9, 2017, the value of the sold loan portfolio amounts to GEL 8,428,236 for a consideration equaling to the same amount. The payment of the consideration was negotiated in two buckets. For the first bucket of the loans the purchasing company in exchange for loan exposure took over the liabilities of the company amounting to GEL 7,851,864. For the second bucket of loans it was agreed that remaining consideration amounting to GEL 576,372 will be received in cash within a period of five months from the date of the sale.

The second sales agreement, signed on the same date with the same counterparty, was agreed for the loan portfolio amounting to GEL 1,655,231 for which consideration (equaling to the same amount) was to be received in cash within a period of twelve months from the date of the sale.

On 18 September, 2017 the Company declared the dividend in the amount of GEL 1,442,785. The dividend was paid to the shareholder on 19 September, 2017.

22. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Management and authorized for issue on September 28, 2017.