JSC MICROFINANCE ORGANIZATION CRYSTAL

Financial Statements

Together with the Independent Auditors' Report

Year ended 31 December 2012

CONTENTS:

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of JSC Microfinance Organization CRYSTAL

Report on the Financial Statements

We have audited the accompanying financial statements of the JSC Microfinance Organization CRYSTAL (hereinafter - the Company), which comprise the statement of financial position as at December 31, 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of **JSC Microfinance Organization CRYSTAL** as at 31December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

25 February, 2013

Tbilisi, Georgia

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 4, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of JSC Microfinance Organization CRYSTAL (hereinafter - the Company).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company at 31 December 2011 and the results of its operations, cash flows, and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Company operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

Financial Statements for the year ended 31 December 2012 were approved on behalf of the board of directors on 25 February 2013 by:

Chief Executive Officer ____________________ M. Dzadzua

Chief Financial Officer ____________________ D. Bendeliani

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

(In GEL)

	Note	2012	2011
Assets			
Cash and cash equivalents	5	3,872,317	2,574,888
Loans to customers:			
Originated loans to customers	6	26,637,516	21,658,355
Accrued interest	6	504,040	372,219
Amounts due from credit institutions	7	1,160,262	-
Other Assets	8	191,655	276,536
Property and Equipment	9	1,021,763	810,207
Intangible assets	10	210,613	202,599
Deferred tax assets	11	26,061	-
Total assets		**33,624,227**	**25,894,804**
Liabilities			
Notes payable:			
Originated loans	12	17,912,659	16,567,253
Accrued interest	12	253,154	308,906
Subordinated debt:			
Originated loans	12	4,198,000	-
Accrued interest	12	137,533	-
Other liabilities	13	260,008	145,905
Current income tax liability		105,846	91,606
Deferred tax liabilities	11	-	20,662
Total liabilities		**22,867,200**	**17,134,332**
Share capital	14	2,179,142	2,179,142
Share premium		2,660,356	2,660,356
Retained earnings		5,917,529	3,920,974
Total Equity		**10,757,027**	**8,760,472**
Total Liabilities and equity		**33,624,227**	**25,894,804**

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Chief Financial Officer ________________________ D. Bendeliani

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

(In GEL)

	Note	2012	2011
Interest income	15	9,244,735	7,084,813
Interest expense	15	(1,572,799)	(1,404,656)
Net interest income		**7,671,936**	**5,680,157**
Loan impairment recovery/(charge),net	6	(270,401)	33,180
Net interest income after provision for loan impairment		**7,401,535**	**5,713,337**
Fee and commission income	16	93,434	45,003
Other income	17	280,196	14,469
Depreciation and amortization expenses	9,10	(380,798)	(224,830)
Salaries and other employee benefits	18	(2,876,024)	(2,153,479)
Administrative and other operating expenses	19	(1,910,204)	(1,353,612)
Impairment of other assets		(66,600)	(115,270)
Gain/(loss) from exchange rate difference	20	(9,400)	26,459
Profit from operations		**2,532,139**	**1,952,077**
Unrestricted revenue from received grants	21	29,365	166,000
Profit before income tax		**2,561,504**	**2,118,077**
Income tax expense	22	(409,124)	(347,016)
Net profit		**2,152,380**	**1,771,061**
Other comprehensive income		-	-
Total comprehensive income		**2,152,380**	**1,771,061**

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Chief Financial Officer ____________________ D. Bendeliani

The notes on pages 9-38 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

(In GEL)

	Note	Share Capital	Share Premium	Retained Earnings	Total
Balance at 31 December 2010		**1,530,898**	**-**	**2,149,913**	**3,680,811**
Issue of common shares		465,115	1,908,805	-	**2,373,920**
Issue of preferred shares		183,129	751,551	-	**934,680**
Total comprehensive income for the period		-	-	1,771,061	**1,771,061**
Balance at 31 December 2011		**2,179,142**	**2,660,356**	**3,920,974**	**8,760,472**
Expenses incurred on behalf of shareholders	14	**-**	**-**	(155,825)	**(155,825)**
Total comprehensive income for the period		**-**	**-**	2,152,380	**2,152,380**
Balance at 31 December 2012		**2,179,142**	**2,660,356**	**5,917,529**	**10,757,027**

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STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

(In GEL)

	Note	2012	2011
Cash flows from operating activities			
Profit before income tax		**2,561,504**	**2,118,077**
Adjustments to:			
Depreciation and amortization	9,10	380,798	224,830
Interest income	15	(9,244,735)	(7,084,813)
Interest expenses	15	1,572,799	1,404,656
Loan impairment charge/(recovery) net	6	270,401	(33,180)
Other bad debt impairment		66,600	115,270
Unrestricted revenue from received grants	21	(29,365)	(166,000)
Loss/(Gain) from exchange rate difference	20	9,400	(26,459)
Loss/(Gain) from disposal of PPE	19	(2,795)	22,524
Cash outflows from operating activities before changes in operating assets and liabilities		**(4,415,393)**	**(3,425,095)**
Movements in working capital:			
Increase in loans to customers		(5,326,470)	(7,829,349)
Increase in amounts due from credit institutions		(1,160,880)	-
Increase in other Assets		(25,476)	(81,042)
Increase in other liabilities		53,829	100,694
Cash outflow from operating activities		**(10,874,390)**	**(11,234,792)**
Interest received		9,163,175	6,871,118
Interest paid		(1,437,715)	(1,329,446)
Income tax paid		(441,607)	(265,666)
Net cash outflow from operating activities		**(3,590,537)**	**(5,958,786)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(562,416)	(537,379)
Purchase of Intangible assets		(28,306)	(86,824)
Proceeds from sale of property, plant and equipment		4,260	38,114
Net cash outflow from investing activities		**(586,462)**	**(586,089)**
Cash flows from financial activities			
Proceeds from notes payable		21,294,802	8,810,488
Repayment of notes payable		(15,658,850)	(3,983,605)
Cash outflow from transaction with shareholder	14	(155,825)	-
Received grants	21	29,365	166,000
Proceeds from share issue	14	-	3,308,600
Net cash inflow from financing activities		**5,509,492**	**8,301,483**
Net increase in cash and cash equivalents		**1,332,493**	**1,756,608**
Cash and cash equivalents at the beginning of the year	5	**2,574,888**	**931,172**
Effect of changes in foreign exchange rate on cash and cash equivalents	20	(35,064)	(112,892)
Cash and cash equivalents at the end of the year	5	**3,872,317**	**2,574,888**

Financial Statements for the year ended 31 December 2012 were approved on behalf of the board of directors on 25 February 2013 by:

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The notes on pages 9-38 form an integral part of these financial statements.

1. General information

JSC Microfinance Organization Crystal (JSC MFO Crystal) was founded on August 23, 2007 on the basis of the decision of the Crystal Fund (Board's Resolution #20, August 21, 2007) according to the Georgian Law on Microfinance Organizations dated July 18, 2006.

Share capital is divided into 2,179,142 ordinary shares with nominal value of GEL1. Each Ordinary share entitles one vote to its owner at the General Meeting of Shareholders of the Joint Stock Organization. The legal address of the Organization is: # 72 Tamar Mepe Str., Kutaisi, Georgia.

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

The Organization objects are to support and develop micro, small and medium businesses in Georgia, to improve the social and economic conditions of clients by providing them with accessible financial services.

The main activity of the Organisation is micro lending. The Organization's financial products are: individual business loans, agro-business loans, group loans, consumer loans, housing loans, etc.

Organization's head office is located in Kutaisi with four regional branches (Kutaisi, Zugdidi, Poti, Tbilisi) and fifteen service centers.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

a) Statement of compliance

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

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the most appropriate application in applying the accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 3.

b) Basis of measurement

The financial statements have been prepared under the historical cost bases as modified by the initial recognition of financial instruments based on fair value.

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

c) Going concern

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

2. Summary of significant accounting policies (continued)

2.2 Adoption of new IFRSs

a) New standards, interpretations and amendments effective from 1 January 2012

None of the new standards, interpretations and amendments, effective for the first time from 1 January 2012, have had a material effect on the financial statements.

b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2012 and not early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the company, except the following set out below:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the Board

2.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are premeasured. Foreign

2. Summary of significant accounting policies (continued)

exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to notes payables and cash and cash equivalents are presented in the statement of comprehensive income within “Gain (loss) from exchange rate differences” with other foreign exchange gains and losses.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

At 31 December 2012 and 2011 the closing rate of exchange used for translating foreign currency balances was:

	Official rate of the National Bank of Georgia
	USD
Exchange rate as at 31.12.12	1,6567
Exchange rate as at 31.12.11	1.6703

2.4 Financial Instruments

Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets. The Company determines the classification of its financial assets upon initial recognition.

Fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss. They are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

The company does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Held to maturity investments

Non derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the company has positive intention and ability to hold them upon maturity.

The company does not have any assets classified as held to maturity.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

2. Summary of significant accounting policies (continued)

Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise principally the company's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities as well as corporate bonds. They are carried at fair value with changes in fair value generally recognised in other comprehensive income and accumulated in the available-for-sale reserve; Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognised in other comprehensive income, is recognised in profit or loss.

The company does not have any assets classified as available for sale.

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

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

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

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

Derecognition of financial assets

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities

Financial liabilities are classified as notes payable, subordinated debt and other financial liabilities. Financial liabilities are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognised on an effective yield basis.

2. Summary of significant accounting policies (continued)

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

Derecognition of financial liabilities

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

Offsetting

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

IFRS 7 fair value measurement hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

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

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

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

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the company considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- Any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

- The borrower experiences a significant financial difficulty as evidenced by borrower's financial

information that the organisation obtains;

- The borrower considers bankruptcy or a financial reorganisation;

2. Summary of significant accounting policies (continued)

- There is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;

- The value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

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

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

2.5 Cash and cash equivalents

Cash and cash equivalents include cash on hand, non-restricted cash on current accounts in banks, and non-restricted cash on bank deposits with original maturity of less than 3 months.

2.6 Repossessed collateral

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

Inventories of repossessed assets are recorded at the lower of cost or net realisable value.

2. Summary of significant accounting policies (continued)

2.7 Property, plant and equipment and intangible assets

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

Depreciation is charged on the carrying value of property, plant and equipment and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight line basis at the following useful lives:

Group	Useful life (year)
Buildings	30
Vehicles	5
Furniture	3-6
IT equipment	3-6
Lease hold improvement	According to lease contracts
Intangible assets	5-10
Other	2-6

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.

The carrying amounts of property, plant and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount. Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge property, plant and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

2.8 Taxation

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

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

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects

2. Summary of significant accounting policies (continued)

neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rate (and laws) that has been enacted or substantially enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity where there is an intention to settle the balances on a net basis.

2.9 Temporary restricted revenue from received grants

Government grants are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

2.10 Recognition of income and expense

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

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

2.11 Post balance-sheet events

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

2.12 Staff costs and related contributions

Wages, salaries, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company.

2.13 Provisions, Contingent Liabilities and Contingent Assets

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

Contingent assets are not reflected in the financial statements, but the information on them is

2. Summary of significant accounting policies (continued)

disclosed when inflow of economic benefits is possible. If economic benefits are sure to occur, an asset and related income are recognized in the financial statements for the period, when the evaluation change occurred.

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

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

(b) Legislation; or

(c) Other operation of law.

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

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

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

3. Critical accounting estimates and judgments

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

• **Fair value of financial instruments**. Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, there are determined using variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but if it is not feasible, a degree of judgment is required in establishing a fair value.

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

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

3. Critical accounting estimates and judgments (continued)

methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

• **Initial recognition of related party transactions.** In the normal course of business the Company enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is

pricing for similar types of transactions with unrelated parties and effective interest rate analysis. In management judgment, at December 31, 2012 and 2011, there were no loans and advances at other then market conditions. Terms and conditions of related party balances are disclosed in Note 26.

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

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

4. Prior period reclassifications

Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts. The effect of reclassifications is as follows:

Financial Statement caption (old)	Financial Statement caption (new)	As previously stated	Reclassification	As restated
Gross loan portfolio	Loans to customers	22,315,979	-	22,315,979
Loan loss allowance	Loans to customers	(285,405)	-	(285,405)
Receivable from penalties	Other Assets	3,877	-	3,877
Held for sale	Other Assets	112,130	-	112,130
Other current assets	Other Assets	160,529	-	160,529
Accounts payable	Other liabilities	145,905	-	145,905
Current portion of long term loans	Notes payable	7,718,865	-	7,718,865
Long-term loans	Notes payable	9,157,294	-	9,157,294
Interest income	Interest income	6,994,914	89,899	7,084,813
Income (expenses) from penalties	Other bad debt impairment	(120,200)	-	(120,200)
Other income	Other income	149,371	(134,902)	14,469
Loan loss provision (expenses) / gain	Loan impairment charge	(96,787)	-	(96,787)
Loans (written off)/recovered	Loan impairment charge	129,967	-	129,967
General and administrative expenses	Administrative and other operating expenses	(1,267,958)	-	(1,267,958)
Fee and commission income	Fee and commission income	-	45,003	45,003
Other bad debt (written off)/recovered	Other bad debt impairment	4,930	-	4,930
Marketing expenses	Administrative and other operating expenses	(61,858)	-	(61,858)
Gain/loss from fixed asset disposal and impairment	Administrative and other operating expenses	(22,524)	-	(22,524)
Other expenses	Administrative and other operating expenses	(1,272)	-	(1,272)

5. Cash and cash equivalents

Cash and cash equivalents as at December 31, 2012 and 2011 can be presented as follows:

	2012	2011
Cash on hand	868,764	679,190
Cash on current accounts with banks in Georgian Lari	1,716,797	16,881
Cash on current accounts with banks in other currencies	383,686	1,878,817
Placements with banks with original maturities of less than three months	903,070	-
	3,872,317	**2,574,888**

Cash and cash equivalents distribution by currency as at 31 December 2012 can be presented as follows:

	in GEL	in USD	in EUR	Total
cash on hand	707,479	98,408	62,877	**868,764**
cash on current accounts with banks	1,716,797	222,392	161,294	**2,100,483**
Placements with banks with original maturities of less than three months	-	903,070	-	**894,618**
	2,424,276	**1,223,870**	**224,171**	**3,872,317**

Cash and cash equivalents distribution by currency as at 31 December 2011 can be presented as follows:

	in GEL	in USD	in EUR	Total
Cash on hand	238,788	371,204	69,198	679,190
Cash on current accounts with banks	16,881	1,871,044	7,773	1,895,698
	255,669	**2,242,248**	**76,971**	**2,574,888**

6. Loans to customers

Loans to customers as at December 31, 2012 and 2011 can be presented as follows:

	2012	2011
Originated loans to customers	27,084,296	21,943,761
Accrued interest	504,040	372,219
	27,588,336	**22,315,980**
Less: allowance for impairment losses	(446,780)	(285,406)
Total loans to customers	**27,141,556**	**22,030,574**

Loans to customers at amortized cost and according to agreement as at December 31, 2012 and 2011 can be presented as follows:

	2012		2011	
	Principal	Interest	Principal	Interest
Loans to customer at amortized cost	27,084,294	504,040	21,943,761	372,218
Loans to customers according to agreement	27,187,875	504,040	21,733,393	387,608
Difference	**(103,581)**	**-**	**210,368**	**(15,390)**

6. Loans to customers (continued)

Portfolio distribution by loan type is as follows:

	2012	2011
Individual Business loan	19,746,489	16,480,679
Consumer loan	4,312,608	3,993,950
Pawnshop loan	3,221,889	1,526,857
Credit line	165,648	241,912
Mortgage loan	138,331	69,228
Group loan	3,371	3,354
Less: impairment provisions	**(446,780)**	**(285,406)**
Total Loans to customers	**27,141,556**	**22,030,574**

Movements on allowance for impairment are as follows:

	2012	2011
At 1 January	285,406	188,619
Charge/(Reversal) for the year	270,401	(33,180)
Recovery of amounts previously written off as uncollectible	104,129	194,198
Amounts written off during the year as uncollectible	(213,156)	(64,231)
At 31 December	**446,780**	**285,406**
Individual impairment	-	-
Collective impairment	446,780	285,406

The Company's exposure to impairment losses related to loan portfolio is disclosed in note 24.

Information about collateral at 31 December 2012 is as follows:

	Individual Business loan	Consumer loan	Pawnshop loan	Credit line	Mortgage loan	Group loan	Total
Unsecured loans	14,797,554	3,838,912	-	-	-	3,371	**18,639,837**
Loans collateralized by:							
Real estate	4,782,018	326,069	-	154,163	138,331	-	**5,400,581**
Movable property	166,917	147,627	3,221,889	11,485	-	-	**3,547,918**
	19,746,489	**4,312,608**	**3,221,889**	**165,648**	**138,331**	**3,371**	**27,588,336**
Less impairment provisions	(334,998)	(47,322)	(60,710)	(2,333)	(1,383)	(34)	(446,780)
Total Loans to customers	**19,411,491**	**4,265,286**	**3,161,179**	**163,315**	**136,948**	**3,337**	**27,141,556**

6. Loans to customers (continued)

Information about collateral at 31 December 2011 is as follows:

	Individual Business loan	Consumer loan	Pawnshop loan	Credit line	Mortgage loan	Group loan	Total
Unsecured loans	11,924,289	3,308,320	-	-	-	3,354	15,235,963
Loans collateralized by:							-
Real estate	4,320,164	317,557	-	196,847	51,669	-	4,886,237
Movable property	236,226	368,073	1,526,857	45,065	17,559	-	2,193,780
	16,480,679	**3,993,950**	**1,526,857**	**241,912**	**69,228**	**3,354**	**22,315,980**
Less impairment provisions	(212,066)	(43,035)	(27,203)	(2,397)	(672)	(33)	**(285,406)**
Total Loans to customers	**16,268,613**	**3,950,915**	**1,499,654**	**239,515**	**68,556**	**3,321**	**22,030,574**

Analysis by credit quality of loans outstanding at 31 December 2012 is as follows:

	Individual Business loan	Consumer loan	Pawnshop loan	Credit line	Mortgage loan	Group loan	Total
Current and not impaired	19,416,052	4,296,780	3,096,425	162,472	138,331	3,371	27,113,431
Loans collectively determined to be impaired:							
Less than 30 days overdue	116,003	5,317	125,464	3,176	-	-	249,960
31-60 days overdue	27,973	-	-	-	-	-	27,973
61-90 days overdue	55,292	1,287	-	-	-	-	56,579
91-180 days overdue	69,534	4,494	-	-	-	-	74,028
Prolonged	61,635	4,730	-	-	-	-	66,365
	19,746,489	**4,312,608**	**3,221,889**	**165,648**	**138,331**	**3,371**	**27,588,336**
Less impairment provisions	(334,998)	(47,322)	(60,710)	(2,333)	(1,383)	(34)	**(446,780)**
Total Loans to customers	**19,411,491**	**4,265,286**	**3,161,179**	**163,315**	**136,948**	**3,337**	**27,141,556**

6. Loans to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2011 is as follows:

	Individual Business loan	Consumer loan	Pawnshop loan	Credit line	Mortgage loan	Group loan	Total
Current and not impaired	16,290,168	3,978,858	1,474,546	223,148	65,755	3,354	**22,035,829**
Loans collectively determined to be impaired:							
Less than 30 days overdue	40,042	10,129	52,311	-	-	-	**102,482**
31-60 days overdue	17,995	-	-	-	-	-	**17,995**
61-90 days overdue	5,591	492	-	-	-	-	**6,083**
91-180 days overdue	16,067	1,868	-	-	1,581	-	**19,516**
Prolonged	110,816	2,603	-	18,764	1,892	-	**134,075**
	16,480,679	**3,993,950**	**1,526,857**	**241,912**	**69,228**	**3,354**	**22,315,980**
Less impairment provisions	(212,066)	(43,035)	(27,203)	(2,397)	(672)	(33)	**(285,406)**
Total Loans to customers	**16,268,613**	**3,950,915**	**1,499,654**	**239,515**	**68,556**	**3,321**	**22,030,574**

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

7. Amounts due from credit institutions

Amounts due from credit institutions as at December 31, 2012 and 2011 can be presented as follows:

	Currency	Maturity	2012	2011
TBC Bank	USD	25/01/2013	1,160,262	-

Amount due from credit institutions include time deposit placed in local bank with effective maturity of more than 90 days. That amount is pledged to the counterparty as security for open commitment.

The Interest rate on the time deposit placed within local bank is4.5% per annum.

Loan received from TBC Bank is collateralized by time deposit mentioned above.

8. Other assets

Other assets as at December 31, 2012 and 2011 can be presented as follows:

	2012	2011
Inventories of repossessed collateral	119,103	112,130
Receivable from personnel	66,619	-
Receivable from cash transfer	33,714	41,454
Advance payment	21,387	42,779

8. Other assets (continued)

	2012	2011
Other receivable	17,432	80,173
	258,255	**276,536**
bad debt provision	(66,600)	-
	191,655	**276,536**

9. Property and equipment

Property and equipment as at December 31, 2012 and 2011 can be presented as follows:

Historical cost	Buildings	Vehicles	Furniture	IT equipment	Lease hold improvement	Other fixed assets	Total
As at December 31, 2010	**88,890**	**86,008**	**54,424**	**202,131**	**201,420**	**149,394**	**782,267**
Acquisitions	6,518	-	21,567	182,969	146,401	171,493	**528,948**
Disposals	-	-	(9,503)	(42,576)	(1,630)	(19,537)	**(73,246)**
Transfer to other current assets	-	(8,673)	-	-	-	-	**(8,673)**
As at December 31, 2011	**95,408**	**77,335**	**66,488**	**342,524**	**346,191**	**301,350**	**1,229,296**
Acquisitions	-	-	59,842	183,971	224,081	94,522	**562,416**
Disposals	-	-	(160)	-	(5,309)	-	**(5,469)**
As at December 31, 2012	**95,408**	**77,335**	**126,170**	**526,495**	**564,963**	**395,872**	**1,786,243**
Depreciation							
As at December 31, 2010	**(14,453)**	**(33,265)**	**(24,717)**	**(85,370)**	**(69,952)**	**(68,798)**	**(296,555)**
Depreciation for the period	(2,739)	(11,001)	(16,546)	(55,955)	(57,014)	(59,698)	**(202,953)**
Accumulated depreciation on disposal	-	7,173	9,503	42,576	1,630	19,537	**80,419**
As at December 31, 2011	**(17,192)**	**(37,093)**	**(31,760)**	**(98,749)**	**(125,336)**	**(108,959)**	**(419,089)**
Depreciation for the period	(3,180)	(15,467)	(27,172)	(112,746)	(91,782)	(99,048)	**(349,395)**
Accumulated depreciation on disposal	-	-	160	-	3,844	-	**4,004**
As at December 31, 2012	**(20,372)**	**(52,560)**	**(58,772)**	**(211,495)**	**(213,274)**	**(208,007)**	**(764,480)**
Net book value							
As at December 31, 2011	**78,216**	**40,242**	**34,728**	**243,775**	**220,855**	**192,391**	**810,207**
As at December 31, 2012	**75,036**	**24,775**	**67,398**	**315,000**	**351,689**	**187,865**	**1,021,763**

10. Intangible assets

Intangible assets as at December 31, 2012 and 2011 can be presented as follows:

Historical cost	Computer software
As at December 31, 2010	**199,792**
Acquisitions	86,824
Disposals	(2,572)
As at December 31, 2011	**284,044**
Acquisitions	39,417
Disposals	(400)
As at December 31, 2012	**323,061**
Amortization	
As at December 31, 2010	**(62,140)**
Amortization for the period	(21,877)
Accumulated amortization on disposal	2,572
As at December 31, 2011	**(81,445)**
Amortization for the period	(31,403)
Accumulated amortization on disposal	400
As at December 31, 2012	**(112,448)**
Net book value	
As at December 31, 2011	**202,599**
As at December 31, 2012	**210,613**

11. Deferred tax asset/liabilities

Deferred tax assets as at December 31, 2012 and 2011 can be presented as follows:

	2012	2011
At 1 January	**(20,662)**	**10,049**
Recognized in profit and loss		
Tax (expense)/income	46,723	(30,711)
Recognized in other comprehensive income	-	-
At 31 December	**26,061**	**(20,662)**

11. Deferred tax asset/liabilities (continued)

Temporary differences as at December 31, 2012 can be presented as follows:

	Asset 2012	Liability 2012	Net 2012	(Charged)/ credited to profit or loss 2012	(Charged)/ credited to equity 2012
Property, Plant and Equipment	5,178	-	5,178	6,550	-
Intangible assets	-	(1,926)	(1,926)	(524)	-
Loans to customers	15,537	-	15,537	44,784	-
Other Assets	-	-	-	(1,068)	
Other liabilities	16,900	-	16,900	3,472	
Notes payable	-	(9,628)	(9,628)	(6,491)	
Tax asset/(liabilities)	**37,615**	**(11,554)**	**26,061**	**46,723**	**-**
Set off of tax	(11,554)	11,554			
Net tax assets/(liabilities)	**26,061**	**-**	**26,061**	**46,723**	**-**

Temporary differences as at December 31, 2011 can be presented as follows:

	Asset 2011	Liability 2011	Net 2011	(Charged)/ credited to profit or loss 2011	(Charged)/ credited to equity 2011
Property, Plant and Equipment	-	(1,372)	(1,372)	(1,345)	
Intangible assets	-	(1,402)	(1,402)	(1,922)	
Loans to customers	-	(29,247)	(29,247)	(29,247)	
Other Assets	1,068	-	1,068	(10,138)	
Other liabilities	13,428	-	13,428	15,078	-
Notes payable	-	(3,137)	(3,137)	(3,137)	-
Tax asset/(liabilities)	**14,496**	**(35,158)**	**(20,662)**	**(30,711)**	**-**
Set off of tax	(14,496)	14,496			
Net tax assets/(liabilities)	**-**	**(20,662)**	**(20,662)**	**(30,711)**	**-**

12. Notes payable

Notes payable as at December 31, 2012 and 2011 can be presented as follows:

	2012	2011
Loans from financial institutions	18,165,813	16,876,159
Subordinated debt	4,335,533	-
Total	**22,501,346**	**16,876,159**

Notes payable at amortized cost and according to agreement as at December 31, 2012 and 2011 can be presented as follows:

	2012		2011	
	Principal	**Interest**	**Principal**	**Interest**
Received loans at amortized cost	22,110,659	390,687	16,567,253	308,906
Received loans according to agreement	22,174,843	390,687	16,588,169	308,906
Difference	**(64,184)**	**-**	**(20,916)**	**-**

12. Notes payable (continued)

	2012		2011	
	Current	Non-current	Current	Non-current
Originated loans	7,537,253	14,573,406	7,409,959	9,157,294
Accrued interest	390,687	-	308,906	-
Total	**7,927,940**	**14,573,406**	**7,718,865**	**9,157,294**

The Company's major lenders include: JSC TBC Bank, European Bank for Reconstruction and Development (EBRD), Incofin, JSC Bank Republic, Symbiotic, Commerzbank, DWM Funds S.C.A-SICAV SIF, KFW, Microcredit enterprises, Oikocredit, Return fund sicav, Rural Impulse Fund, Microfinance Enhancement Facility.

The interest rates on the notes payable and subordinated debt range from 2.75% to 12.4% per annum.

The majority of the Company's long-term loan contracts contain different financial and other covenants, covenants include:

- PAR over 30 days to be less than 3%
- Loan loss reserve coverage to be more than 100%
- Open foreign currency positions to be less than 10% of capital
- Capital adequacy to be more than 25%
- Total liabilities over equity to be less than 5/1
- Operating expenses over income to be less than 75%
- Net profit to be more than 0
- 3 month assets over liabilities to be more than90%
- Debt over equity to be more than 25%
- Liquid assets over total assets to be more than 10%
- ROA to be in range 1%-10%

There is a regular communication between the lenders and the Company regarding the Covenants and the Company is in compliance with all the financial and other covenants as agreed with the lenders.

13. Other liabilities

Other liabilities as at December 31, 2012 and 2011 can be presented as follows:

	2012	2011
Accruals for employee compensation	90,326	74,598
Dividends of preferred shares	65,498	16,507
Trade payables	50,402	14,419
Uncertain amounts	16,897	20,246
Personal income tax payable	22,341	14,836
Property tax payable	3,259	2,019
Other payables	11,285	3,280
	260,008	**145,905**

14. Share capital

Share capital as at December 31, 2012 can be presented as follows:

Shareholder	Number of shares	Common/ Preferred	Share %	Share, % from Common Stocks	Nominal (GEL)	Capital (GEL)
"Crystal" Fund	1,475,593	Common	67.71%	73.93%	1	1,475,593
DWM Funds S.C.A-SICAV SIF	465,115	Common	21.34%	23.30%	1	465,115
Keith Young	55,305	Common	2.54%	2.77%	1	55,305
DWM Funds S.C.A-SICAV SIF	183,129	Preferred	8.40%	-	1	183,129
Total Stocks	**2,179,142**		**100%**	**100**		**2,179,142**

Share capital as at December 31, 2011 can be presented as follows:

Shareholder	Number of shares	Common/ Preferred	Share %	Share, % from Common Stocks	Nominal (GEL)	Capital (GEL)
DWM Funds S.C.A-SICAV SIF	465,115	Common	21.34%	23.30%	1	465,115
Archil Bakuradze	451,165	Common	20.70%	22.60%	1	451,165
Malkhaz Dzadzua	320,469	Common	14.71%	16.06%	1	320,469
"Crystal" Fund	296,910	Common	13.63%	14.88%	1	296,910
Davit Bendeliani	191,158	Common	8.77%	9.58%	1	191,158
Alu Gamaxaria	120,371	Common	5.52%	6.03%	1	120,371
Paata Tsotsonava	95,520	Common	4.38%	4.79%	1	95,520
Keith Young	55,305	Common	2.54%	2.77%	1	55,305
DWM Funds S.C.A-SICAV SIF	183,129	Preferred	8.40%	0.00%	1	183,129
Total Stocks	**2,179,142**		**100%**	**100%**		**2,179,142**

15. Net interest income

Interest income and expense for the year ended December 31, 2012 and 2011 can be presented as follows:

Interest income comprises:	**2012**	**2011**
Interest income on financial assets recorded at amortized cost comprises:		
Loans to customers	9,171,990	6,994,914
Placements within banks	72,745	89,899
Total interest income on financial assets recorded at amortized cost	**9,244,735**	**7,084,813**

15. Net interest income (continued)

Interest expense comprises:	2012	2011
Interest expense on financial liabilities recorded at amortized cost comprise:		
Notes payable	(1,369,177)	(1,388,225)
Subordinated debt	(138,238)	-
Dividends of preferred share	(65,384)	(16,431)
Total interest expense	**(1,572,799)**	**(1,404,656)**
Net interest income	**7,671,936**	**5,680,157**

16. Fee and commission income

Fee and commission income for the year ended December 31, 2012 and 2011 can be presented as follows:

	2012	2011
Gains less losses from trading in foreign currencies	73,958	17,201
Other service fee	19,476	27,802
	93,434	**45,003**

17. Other income

Other income for the year ended December 31, 2012 and 2011 can be presented as follows:

	2012	2011
Income from penalties	239,640	12,080
Other income	37,761	2,389
Gain from the sale of property and equipment	2,795	-
	280,196	**14,469**

18. Salaries and other employee benefits

Salaries and other employee benefits for the year ended December 31, 2012 and 2011 can be presented as follows:

	2012	2011
Salaries	(2,310,938)	(1,740,936)
Bonuses	(447,651)	(353,893)
Insurance	(76,593)	(50,479)
Other benefits	(40,842)	(8,171)
	(2,876,024)	**(2,153,479)**

19. Administrative and other operating expenses

Administrative and other operating expenses for the year ended December 31, 2012 and 2011 can be presented as follows:

	2012	2011
Rent expenses	(514,864)	(389,794)
Legal and other professional services	(192,179)	(61,429)
Utilities and communication	(198,290)	(160,051)
Consumables and office supplies	(171,407)	(122,308)
Fuel expenses	(164,068)	(122,707)
Membership fees	(118,899)	(105,596)
Personnel training and recruitment	(79,470)	(34,926)
Bank charges	(77,643)	(50,402)
Insurance	(71,918)	(23,197)
Marketing and advertising	(63,877)	(61,858)
Business trips	(57,366)	(29,466)
Security costs	(43,513)	(32,905)
Charity	(39,761)	(39,164)
Taxes other than income tax	(30,221)	(58,520)
Lawsuit expenses related to doubtful debts	(22,254)	-
Representative expense	(14,734)	(5,964)
Repair and maintenance	(13,013)	(9,286)
Gain/loss from fixed asset disposal and impairment	-	(22,524)
Other	(36,727)	(23,515)
	(1,910,204)	**(1,353,612)**

20. Gain (loss) from exchange rate difference

Gain/(loss) from exchange rate difference for the year ended December 31, 2012 and 2011 can be presented as follows:

	2012	2011
Realized exchange rate difference	(35,064)	(112,892)
Unrealized exchange rate difference	25,664	139,351
	(9,400)	**26,459**

21. Unrestricted revenue from received grants

The company received grant amounted GEL 29,365 from Incofin Investment Management for external consultancy costs. In 2012, the Company met all the grant agreement obligations and recognized unrestricted revenue from received grant.

22. Income tax expense

Income tax expense for the year ended December 31, 2012 and 2011 can be presented as follows:

	2012	2011
Current tax	(455,847)	(316,305)
Deferred tax credit/(charge)	46,723	(30,711)
Income tax expense for the year	**(409,124)**	**(347,016)**

22. Income tax expenses (continued)

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

	2012	2011
Profit before income tax	2,561,504	2,118,077
Applicable tax rate	15%	15%
Theoretical income tax	(384,226)	(317,712)
Expenses not deductible for tax purposes	(48,325)	(51,682)
Nontaxable income	23,427	22,378
Income tax expense for the year	**(409,124)**	**(347,016)**

23. Commitments and Contingencies

Litigation

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

Financial commitments and contingencies

Non-cancelable operating lease commitments for 2012 and 2011 are payable as follows:

	2012	2011
Less than one year	335,874	244,105
Between one and five years	772,873	446,260
More than five years	48,548	32,718
	1,157,295	**723,083**

The company leases a number of offices under operating leases. The leases typically run for a period of 3-5 years, with an option to renew the lease after that date. Lease payments are increased every 2-3 years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

24. Financial instruments – risk management

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

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

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

24. Financial instruments - risk management (continued)

General objectives, policies and processes

The Supervisory Board together with its committees (ALCO – Assets and liabilities committee, Risk Committee, Strategic committee, Internal Audit Committee and Social Performance Committee) have overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Organization's finance function.

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

Credit Risk

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

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

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

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

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

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

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

Assessment of the applicant's creditworthiness through complete monitoring of its business allows timely avoiding the risk of financial loss. Monitoring is performed by credit officers who report the results to the management. Since 2011 the Company launched a new monitoring system. 10% of total loans are monitored by the manager of service center on monthly basis. After, the results are documented in loans program and presented to the top management. Also, from 2011 monitoring and quality management service was created in the Company. This service provides monitoring on the 10 % of total loans. For timely response to potential risks, monitoring results are presented to the top management on monthly basis. New monitoring system helps to manage credit risks and timely neutralize them.

24. Financial instruments – risk management (continued)

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

	2012	2011
Cash and cash equivalents (Excluding cash on hand)	3,003,553	1,895,698
Loans to customers	27,141,556	22,030,574
Amounts due from credit institutions	1,160,262	-
	31,305,371	**23,926,272**

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

Market Risk

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors.

Market risk arises from the Company's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) and foreign exchange rates (currency risk).

Currency risk

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

The Company's exposure to foreign currency exchange rate risk as at 31 December, 2012 is presented in the table below:

	GEL	USD USD 1 = 1.6567 GEL	EUR EUR 1 = 2.1825 GEL	Total
Financial assets				
Cash and cash equivalents	2,424,276	1,223,870	224,171	**3,872,317**
Loans to customers	15,012,390	12,129,166	-	**27,141,556**
Amounts due from credit institutions	-	1,160,262	-	**1,160,262**
Other Assets	33,714	-	-	**33,714**
Total financial assets	**17,470,380**	**14,513,298**	**224,171**	**32,207,849**
Financial liabilities				
Notes payable and subordinated debt	6,926,844	15,574,502	-	**22,501,346**
Other liabilities	50,402	65,498	-	**115,900**
Total financial liabilities	**6,977,246**	**15,640,000**	**-**	**22,617,246**
Open balance sheet position	**10,493,134**	**(1,126,702)**	**224,171**	

24. Financial instruments - risk management (continued)

The Company's exposure to foreign currency exchange rate risk as at 31 December, 2011 is presented in the table below:

	GEL	USD USD 1 = 1.6703 GEL	EUR EUR 1 = 2.1614 GEL	Total
Financial assets				
Cash and cash equivalents	255,670	2,242,248	76,970	**2,574,888**
Loans to customers	12,594,560	9,436,014	-	**22,030,574**
Amounts due from credit institutions	-	-	-	**-**
Other Assets	3,066	811	-	**3,877**
Total financial assets	**12,853,296**	**11,679,073**	**76,970**	**24,609,339**
Financial liabilities				
Notes payable and subordinated debt	4,097,317	12,778,842	-	**16,876,159**
Other liabilities	128,590	17,314	-	**145,904**
Total financial liabilities	**4,225,907**	**12,796,156**	**-**	**17,022,063**
Open balance sheet position	**8,627,389**	**(1,117,083)**	**76,970**	

Currency risk sensitivity

The following table details the Company's sensitivity to a 10% increase and decrease in the USD against the GEL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates.

Impact on net profit and equity based on asset values as at 31 December 2012 and 2011:

31.12.2012	**USD impact**		**EUR impact**	
	GEL/USD + 10%	**GEL/USD - 10%**	**GEL/EUR + 10%**	**GEL/EUR - 10%**
Profit/(loss)	(112,670)	112,670	22,417	(22,417)

31.12.2011	**USD impact**		**EUR impact**	
	GEL/USD + 10%	**GEL/USD - 10%**	**GEL/EUR + 10%**	**GEL/EUR - 10%**
Profit/(loss)	(111,708)	111,708	7,697	(7,697)

24. Financial instruments – risk management (continued)

Interest Rate Risk

The interest rate risk is the risk (with variable value) related to the interest-bearing assets – loans, because of the variable rate. The Company gives all credits at fixed interest rate and respectively is never exposed to the risk of losing even small part of the interest receivables due to the market interest rate fall.

However, the Company has a current credit from foreign financial institutions that is linked to LIBOR and other variable factors. The management regularly controls the LIBOR changes and accounts for the credit related operations in due course. During the recent years LIBOR is reducing and the Company has not yet been exposed to any risks in this regard. No other interest rate risk hedging transactions are executed by the Company, but the process of introducing the methods for neutralizing such risks is now under consideration.

Liquidity Risk

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

The ALCO controls these types of risks by means of maturity analysis, determining the Company's strategy for the next financial period.

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

An analysis of the liquidity 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 Company.

Liquidity of Financial assets and liabilities as at 31 December 2012 can be presented as follows:

	Up to 1 year	1 year to 5 years	Over 5 years	Total
Financial assets				
Loans to customers	18,720,240	8,421,316	-	**27,141,556**
Total interest bearing financial assets	18,720,240	8,421,316	-	**27,141,556**
Cash and cash equivalents	3,872,317	-	-	**3,872,317**
Amounts due from credit institutions	1,160,262	-	-	**1,160,262**
Other Assets	33,714	-	-	**33,714**
Total financial assets	**23,786,533**	**8,421,316**	**-**	**32,207,849**
Financial liabilities				
Notes payable and subordinated debt	7,927,940	10,277,894	4,295,512	**22,501,346**
Total interest bearing financial liabilities	7,927,940	10,277,894	4,295,512	**22,501,346**

24. Financial instruments - risk management (continued)

	Up to 1 year	1 year to 5 years	Over 5 years	Total
Other liabilities	115,900	-	-	**115,900**
Total financial liabilities	**8,043,840**	**10,277,894**	**4,295,512**	**22,617,246**
Liquidity gap	15,742,693	(1,856,578)	(4,295,512)	
Cumulative liquidity gap	**15,742,693**	**13,886,115**	**9,590,603**	

Liquidity of Financial assets and liabilities as at 31 December 2011 can be presented as follows:

	Up to 1 year	1 year to 5 years	Over 5 years	Total
Financial assets				
Loans to customers	8,753,035	13,277,539	-	**22,030,574**
Total interest bearing financial assets	8,753,035	13,277,539	-	**22,030,574**
Cash and cash equivalents	2,574,888	-	-	**2,574,888**
Amounts due from credit institutions	-	-	-	**-**
Other Assets	3,877	-	-	**3,877**
Total financial assets	**11,331,800**	**13,277,539**	**-**	**24,609,339**
Financial liabilities				
Notes payable and subordinated debt	7,718,865	8,547,864	609,430	**16,876,159**
Total interest bearing financial liabilities	7,718,865	8,547,864	609,430	**16,876,159**
Other liabilities	145,904	-	-	**145,904**
Total financial liabilities	**7,864,769**	**8,547,864**	**609,430**	**17,022,063**
Liquidity gap	3,467,031	4,729,675	(609,430)	
Cumulative liquidity gap	**3,467,031**	**8,196,706**	**7,587,276**	

25. Management of capital

The Company's objectives when maintaining capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders; and

25. Management of capital (continued)

- To provide an adequate return to shareholders by pricing services commensurately with the level of risk.

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

26. Transactions with related parties

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

a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Company that gives then significant influence over the Company; and that have joint control over the Company;
b) Members of key management personnel of the Company or its parent;
c) Close members of the family of any individuals referred to in (a) or (b);
d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (b);

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

	2012		2011	
	Related party balances	**Total category as per the financial statements caption**	**Related party balances**	**Total category as per the financial statements caption**
Notes payable:	**791,983**	**18,165,813**	**1,791,348**	**16,876,159**
- Shareholder	791,983		1,791,348	

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

	2012		2011	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Key management personnel compensation:	**383,060**	**2,876,024**	**233,820**	**2,153,479**
- short-term employee benefits	383,060		233,820	

26. Transactions with related parties (continued)

Included in the statement of comprehensive income for the years ended December 31, 2012 and 2011 are the following amounts which were recognized in transactions with related parties:

	2012		2011	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest expenses	**(107,993)**	**(1,572,799)**	**(210,048)**	**(1,404,656)**
- Shareholder	(107,993)		(210,048)	
Administrative and other operating expenses	**-**	**(1,910,204)**	**(34,531)**	**(1,353,612)**
- Shareholder	-		(17,137)	
- Other related parties	-		(17,394)	
Other income	**-**	**280,196**	**9,785**	**14,469**
- Shareholder	-		9,785	

27. Post balance sheet events

There have been no subsequent events that need to be disclosed in the financial statements