JSC Microfinance Organization Crystal

Financial Statements for the year ended 31 December 2016

Contents

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Independent Auditors' Report

To the Shareholders and Executive Board

Opinion

We have audited the financial statements of JSC MFO Crystal (the "Company"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As at 1 January 2016 the Company early adopted IFRS 9 *"Financial Instruments"* (issued July 2014). The effects of this change are described in Note 2(e) to the financial statements. The Company applied exemption provided by the IFRS 9 *"Financial Instruments"* (issued July 2014) not to restate the comparative periods as a result of the IFRS 9 adoption. Our opinion is not qualified in respect of this matter.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is:

Karen Safaryan

KPMG Georgia LLC

Tbilisi, Georgia
7 June 2017

	Notes	2016 GEL'000	2015 GEL'000
Interest income	4	42,201	30,143
Interest expense	4	(10,132)	(7,718)
Net interest income		**32,069**	**22,425**
Loan impairment charge, net	11	(2,935)	(1,729)
Net interest income after provision for loan impairment		**29,134**	**20,696**
Fee and commission income		2,335	1,118
Net gain on financial instruments at fair value through profit or loss	10	2,186	6,772
Net foreign exchange loss		(5,238)	(7,934)
Other income	5	1,119	712
Personnel expenses	6	(11,779)	(8,444)
Depreciation and amortization expenses	12,13	(1,617)	(1,311)
Other operating and general administrative expenses	7	(6,929)	(5,350)
Profit before income tax		**9,211**	**6,259**
Income tax expense	8	(1,872)	(1,048)
Profit and total comprehensive income for the year		**7,339**	**5,211**

The financial statements as set out on pages 5 to 56 were approved by management on 7 June 2017 and were signed on its behalf by:

M. Dzadzua
Chief Executive Officer

D. Bendeliani
Chief Financial Officer

JSC MICROFINANCE ORGANIZATION "CRYSTAL" * GEORGIA * 212896570

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2016 GEL'000	2015 GEL'000
ASSETS			
Cash and cash equivalents	9	10,355	4,654
Term deposit		-	100
Financial instruments at fair value through profit or loss	10	7,657	4,238
Loans to customers:	11		
- Principal		142,490	103,032
- Interest accrued		3,020	2,091
Property and equipment	12	4,562	3,538
Intangible assets	13	1,190	1,199
Deferred tax assets	8	1,457	1,049
Other assets	14	2,268	1,285
Total assets		**172,999**	**121,186**
LIABILITIES			
Loans and Borrowings:	15		
Principal		129,787	96,289
Interest accrued		2,355	1,677
Current tax liability		830	512
Other liabilities	16	1,001	1,047
Total liabilities		**133,973**	**99,525**
EQUITY			
Share capital	17	3,024	2,208
Share premium		12,130	2,631
Share based payment reserve		362	488
Retained earnings		23,510	16,334
Total equity		**39,026**	**21,661**
Total liabilities and equity		**172,999**	**121,186**

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

	Note	2016 GEL'000	2015 GEL'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		9,211	6,259
Adjustments for:			
Net gain on financial instruments at fair value through profit or loss		(2,186)	(6,772)
Depreciation and amortization		1,617	1,311
Interest income		(42,201)	(30,143)
Interest expenses		10,132	7,718
Loan impairment charge		2,935	1,729
Loss from foreign exchange		5,238	7,934
Loss on disposal of property and equipment		10	9
Equity settled share-based payments		588	488
Cash outflows from operating activities before changes in operating assets and liabilities		**(14,656)**	**(11,467)**
Changes in:			
Decrease (increase) in term deposits		100	(100)
Increase in financial instruments at fair value through profit or loss		(1,233)	4,276
Increase in loans to customers		(38,095)	(28,228)
Increase in other assets		(977)	(417)
Increase in other liabilities		62	147
Cash used in operating activities		**(54,799)**	**(35,789)**
Interest received		41,339	29,605
Interest paid		(9,335)	(7,187)
Income tax paid		(1,962)	(1,403)
Cash used in operations		**(24,757)**	**(14,774)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment		(2,420)	(1,412)
Purchases of intangible assets		(237)	(482)
Cash used in investing activities		**(2,657)**	**(1,894)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from loans and borrowings		64,658	61,268
Repayment of loans and borrowings		(41,058)	(48,401)
Proceeds from share issue		9,601	-
Dividends paid		(475)	-
Cash flows from financing activities		**32,726**	**12,867**
Net increase (decrease) in cash and cash equivalents		**5,312**	**(3,801)**
Effect of changes in exchange rates on cash and cash equivalents		389	2,135
Cash and cash equivalents as at the beginning of the year		4,654	6,320
Cash and cash equivalents as at the end of the year	9	**10,355**	**4,654**

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

GEL '000	Share capital	Share premium	Share based payment reserve	Retained earnings	Total
Balance as at 1 January 2015	2,208	2,631	-	11,123	15,962
Profit and total comprehensive income for the year	-	-	-	5,211	5,211
Transactions with shareholders, recorded directly in equity					
Equity settled share-based payment	-	-	488	-	488
Total transactions with shareholders	**-**	**-**	**488**	**-**	**488**
Balance as at 31 December 2015	**2,208**	**2,631**	**488**	**16,334**	**21,661**
Adjustment due to IFRS 9 application (net of tax)	-	-	-	211	211
Adjusted balance as at 1 January 2016	2,208	2,631	488	16,545	21,872
Profit and total comprehensive income for the year	-	-	-	7,339	7,339
Transactions with shareholders, recorded directly in equity					
Issue of ordinary shares	757	8,786	-	-	9,543
Dividends	-	-	-	(374)	(374)
Movement on Equity settled share-based payments	42	446	(488)	-	-
Equity settled share-based payment	17	267	362	-	646
Total transactions with shareholders	**816**	**9,499**	**(126)**	**(374)**	**9,815**
Balance as at 31 December 2016	**3,024**	**12,130**	**362**	**23,510**	**39,026**

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

1 Background

(a) Organization and operations

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

The legal address of the Company is 72 Tamar Mepe Street, Kutaisi, Georgia.

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

The Company objectives 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 Company is micro lending. The Company’s financial products are: individual business loans, agro loans, consumer loans, pawnshop loans, housing loans, company loans, etc.

The Company has thirty-seven branches around Georgia and the head office is located in Kutaisi.

As at 31 December 2016 the Company’s major shareholder is Crystal Fund with 47.96% shareholding. In 2015 the Company’s parent company and ultimate controlling party was Crystal Fund. Related party transactions are described in detail in note 22.

(b) Georgian business environment

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

2 Basis of preparation

(a) Statement of compliance

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

Details of the Company’s accounting policies, including changes during the year, are included in note 3. As explained in note 2(e), the Company has early adopted IFRS 9 *Financial Instruments* issued in July 2014 with a date of initial application of 1 January 2016.

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss.

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

– loan impairment estimates - note 11;

– linked transactions: obtained loans in local currency are collateralized by deposits in foreign currency, accounted as a single combined instrument – note 10(a);

– estimates of fair values of financial assets and liabilities – note 23.

(e) Change in accounting policy

IFRS 9 Financial Instruments

The Company has early adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2016. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement.* The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Company classifies financial assets under IFRS 9, see note 3(c)(ii).

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

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

- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Company classifies financial assets under IFRS 9, see note 3(c)(ii).

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see note 3(f).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 (2014) have been applied as follows:

– Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2016. Accordingly, the information presented for 2015 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2016 under IFRS 9.

– The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

    - The determination of the business model within which a financial asset is held.
    - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
    - The designation of certain investments in equity instruments not held for trading as at FVOCI.

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

– If a debt security had low credit risk at the date of initial application of IFRS 9, then the Company has assumed that credit risk on the asset had not increased significantly since its initial recognition.

The following table summarises the impact, net of tax, of transition to IFRS 9 on retained earnings at 1 January 2016.

GEL '000	Impact of adopting IFRS 9 at 1 January 2016
Retained earnings	
Closing balance under IAS 39 (31 December 2015)	16,334
Recognition of expected credit losses under IFRS 9 (net of tax of 15%)	211
Opening balance under IFRS 9 (1 January 2016)	**16,545**

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2016.

GEL '000	Notes	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets					
Cash and cash equivalents	9	Loans and receivables	Amortised cost	4,654	4,654
Term deposit		Loans and receivables	Amortised cost	100	100
Financial instruments at fair value through profit or loss	10	FVTPL	FVTPL	4,238	4,238
Loans to customers	11	Loans and receivables	Amortised cost	105,123	105,334
Other financial assets	14	Loans and receivables	Amortised cost	490	490
Total financial assets				**114,605**	**114,816**
Financial liabilities					
Loans and borrowings	15	Other financial liabilities	Other financial liabilities	97,966	97,966
Other financial liabilities	16	Other financial liabilities	Other financial liabilities	500	500
Total financial liabilities				**98,466**	**98,466**

The following table reconciles the carrying amounts of financial assets and financial liabilities under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2016:

GEL 000	IAS 39 carrying amount at 31 December 2015	Reclassification	Remeasurement	IFRS 9 carrying amount at 1 January 2016
Financial assets				
Amortised cost				
Loans to customers:				
Opening balance	105,123			
Remeasurement		-	211	
Closing balance				**105,334**
Total	**105,123**	**-**	**211**	**105,334**

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, and are applied consistently by the Company, except as explained in note 2(e), which addresses changes in accounting policies.

(a) Foreign currency

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

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

(b) Cash and cash equivalents

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

(c) Financial instruments

Policy applicable from 1 January 2016

(i) Recognition and initial measurement

The Company initially recognises loans to customers, deposits on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI); or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Company classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; and
- at FVTPL, and within this category as:

- held for trading; or
- designated as at FVTPL.

Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL, because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Fair value measurement principles

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

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

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

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

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

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

(iv) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In such cases, the transferred assets are not derecognised.

The Company writes off assets deemed to be uncollectible.
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

(v) Loans to customers and other receivables

Loans to customer and other receivables in the statement of financial position include non derivative financial assets measured at amortised cost. These are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Financial instruments at fair value through profit or loss
Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for a derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Company may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Derivative financial instruments

Derivative financial instruments include foreign currency contracts.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Although the Company has derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

Offsetting

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

Policy applicable before 1 January 2016

(vi) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for a derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Company may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Group has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

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

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

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

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

(vii) Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(viii) Measurement

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

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

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

(ix) Amortized cost

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

(x) Fair value measurement principles

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

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

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

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

(xi) Gains and losses on subsequent measurement

A gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss

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

(xii) Derecognition

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

The Company writes off assets deemed to be uncollectible.

(d) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

- buildings	30 years
- vehicles	5 years
- furniture	3 to 6 years
- IT equipment	3 to 6 years
- leasehold improvements	3 to 5 years
- other	2 to 6 years

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

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

(iii) Subsequent expenditure

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the entity, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(e) Intangible assets

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 5 to 10 years.

(f) Impairment

(i) Financial instruments

Policy applicable from 1 January 2016

The Company recognises loss allowances for Expected credit losses (ECLs) on the financial assets measured at amortised cost.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

- debt instruments that are determined to have low credit risk at the reporting date; and
- other debt instruments and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for other receivables are always measured at an amount equal to lifetime ECL.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is 90 days or more past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

In all cases, the maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

Policy applicable before 1 January 2016

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

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

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

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

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

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

(ii) Non-financial assets

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

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

(g) Share capital and reserves

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(ii) Preference share capital

Preference share capital that is non-redeemable is classified as equity.

(iii) Share premium

When share capital is increased, any difference between the registered amount of share capital and the fair value of actual consideration received is recognized as share premium.

(iv) Share based payment reserve

The share-based payment transaction is recognized as an increase in the share based payment reserve.

(v) Dividends

The ability of the Company to declare and pay dividends is subject to the rules and regulations of the Georgian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(h) Taxation

Income tax

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

Current tax

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

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2019.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

Tax reimbursement is available for the current tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2019 or further years.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

Deferred tax

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities until 1 January 2019, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available until 1 January 2019 against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from 1 January 2019 and hence, no deferred income tax assets and liabilities will arise, there on.

(i) Income and expense recognition

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

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

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

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

(j) Employee benefits

(i) Share-based payment arrangements

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-base payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for the differences between expected and actual outcomes.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(k) New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2016, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Company’s operations. The Company plans to adopt these pronouncements when they become effective.

- IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company has not completed an initial assessment of the potential impact of the adoption of IFRS 15 on its financial statements.

- IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

– Disclosure Initiative (Amendments to IAS 7) requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. To satisfy the new disclosure requirements, the Company intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

4 Net interest income

	2016 GEL'000	2015 GEL'000
Interest income calculated using the effective interest method		
Loans to customers	42,152	30,054
Cash and cash equivalents	49	89
	42,201	**30,143**
Interest expenses calculated using the effective interest method		
Loans and borrowings	**(10,132)**	**(7,718)**
	32,069	**22,425**

Included within various line items under interest income for the year ended 31 December 2016 is a total of GEL 420 thousand (2015: GEL 216 thousand) accrued on impaired financial assets.

5 Other income

	2016 GEL'000	2015 GEL'000
Income from penalties	1,049	671
Other income	70	41
	1,119	**712**

6 Personnel expenses

	2016 GEL'000	2015 GEL'000
Salaries and other benefits	10,827	7,624
Equity settled share-based payments	719	488
Expenses related to Management Incentive Plan	233	332
	11,779	**8,444**

Management Incentive Plan, share based payments

On 29 March 2016 Supervisory Board approved Management Incentive Plan for 2016 (“MIP”). The purpose of the MIP was to increase motivation and incentivize the Company’s management executive team in order to deliver the equity growth strategy, foster and safeguard the interest of the Company, its shareholders and a wider group of stakeholders.

The remuneration package of the MIP is formed by fulfilment of a) Company wide targets-60% of MIP, b) Individual targets – 30% of MIP and c) Discretionary – 10% MIP. The remuneration package of the MIP included performance-based incentive pool divided into the cash payments (50% of the incentive pool) and equity settled share-based payment (50% of the incentive pool).

Main conditions determined in the MIP is to meet the Company’s wide targets for the ratios, for example: gross loan provision, portfolio at risk (PAR)>30, return on assets (ROA), return on equity (ROE), etc.

Per the management’s estimates based on the 2016 results, conditions set in the MIP were fulfilled, and as at 31 December 2016 the Company recognized 50% of the incentive pool (to be settled in cash) as a liability to the management executive team. The remaining 50% of the incentive pool (to be settled in shares) used to determine the number of ordinary shares to be settled: by dividing the 50% of the pool to a share value; where the value of each share was determined by dividing carrying value of total equity to total number of the Company’s registered shares as at 31 December 2016.

As at 31 December 2016 fair value of the shares to be settled as share-based payment was GEL 452 thousand (gross) (2015: GEL 488 thousand) comprising 22,322 ordinary shares (2015: 41,480 ordinary shares related to MIP for 2015 and 2014 years) for meeting the Company wide targets. The fair value of the shares approximates the price at which shares of the Company were sold on an arm’s length transaction in 2016. The share-based payment transaction is recognized as an increase in the share based payment reserve in the statement of changes in equity as at 31 December 2016.

On 20 May 2016 the Supervisory Board approved to issue 17,446 ordinary shares for fulfilment Individual and discretionary targets in the scope of the MIP for 2015 of GEL 267 thousand (gross).

The timeline of the MIP’s is summarized in the table below:

MIP year	Status	Basis of transaction	Supervisory board authorization date	Number of ordinary shares
2014	Shares issued and registered	Based on fulfillment of Company wide targets	4 December 2015	13,902
2015	Shares issued and registered	Based on fulfillment of Company wide targets	20 May 2016	27,578
		Based on fulfillment individual and discretionary targets	20 May 2016	17,446
2016	Shares to be settled	Based on fulfillment of Company wide targets	N/A	22,322

7 Other operating and general administrative expenses

	2016 GEL'000	2015 GEL'000
Operating lease rentals	2,477	1,800
Utilities and communication	787	544
Bank charges	599	338
Consumables and office supplies	561	401
Marketing and advertising	409	388
Membership fees	347	301
Fuel	239	217
Business trips	204	165
Legal and other professional services	160	181
Security	157	125
Repairs and maintenance	114	97
Insurance	113	96
Personnel training and recruitment	112	107
Charity	104	77
Taxes other than on income	91	135
Loss on disposal of property and equipment and intangible assets	10	9
Other	445	369
	6,929	**5,350**

8 Taxation

	2016 GEL'000	2015 GEL'000
Current year tax expense	2,170	1,402
Current tax expense under provided in prior years	110	162
	2,280	**1,564**
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(408)	(516)
Total income tax expense	**1,872**	**1,048**

In 2016, the applicable tax rate for current and deferred tax is 15% (2015: 15%).

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

	2016 GEL'000	%	2015 GEL'000	%
Profit before tax	**9,211**		**6,259**	
Income tax at the applicable tax rate	1,382	15	939	15
Under provided in prior years	110	1	162	3
Non-taxable income	380	4	(53)	(1)
	1,872	**20**	**1,048**	**17**

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2016 and 2015.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2016 and 2015 are presented as follows.

GEL'000	Balance 1 January 2016	Recognized in profit or loss	Balance 31 December 2016
Loans to customers	755	382	1,137
Property and equipment	16	1	17
Intangible assets	(27)	5	(22)
Loans and borrowings	155	143	298
Other liabilities	77	(50)	27
Share-based payment transaction	73	(73)	-
	1,049	**408**	**1,457**

GEL'000	Balance 1 January 2015	Recognized in profit or loss	Balance 31 December 2015
Loans to customers	477	278	755
Property and equipment	(10)	26	16
Intangible assets	(15)	(12)	(27)
Loans and borrowings	58	97	155
Other liabilities	23	54	77
Share-based payment transaction	-	73	73
	533	**516**	**1,049**

(b) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 GEL	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Loans to customers	1,137	755	-	-	1,137	755
Property and equipment	17	16	-	-	17	16
Intangible assets	-	-	(22)	(27)	(22)	(27)
Loans and borrowings	298	155	-	-	298	155
Other liabilities	27	77	-	-	27	77
Share-based payment transaction	-	73	-	-	-	73
Net tax assets/(liabilities)	**1,479**	**1,076**	**(22)**	**(27)**	**1,457**	**1,049**

9 Cash and cash equivalents

	2016 GEL'000	2015 GEL'000
Cash on hand	3,026	2,615
Bank balances	7,329	2,039
Total cash and cash equivalents	**10,355**	**4,654**

No cash and cash equivalents are impaired or past due.

As at 31 December 2016 the majority of the Company's cash in banks is with banks rated by Fitch Ratings as B (short-term rating), BB- (long-term rating).

10 Financial instruments at fair value through profit or loss

	2016 GEL'000	2015 GEL'000
ASSETS		
Derivative financial instruments		
Foreign currency contracts	**7,657**	**4,238**

Financial instruments at fair value through profit or loss comprise foreign currency contracts.

No financial assets at fair value through profit or loss are past due or impaired.

(a) Foreign currency contracts

The Company aggregates non-derivative transactions of back to back loans from banks guaranteed by foreign currency deposits placed at the same banks as derivative instruments (foreign currency contracts), due to the fact that the transactions (placement of deposit and taking of the loan) result, in substance, in a derivative. The conclusion is based on the following indicators:

- they are entered into at the same time and in contemplation of one another,
- they have the same counterparty,
- they relate to the same risk,
- there is no apparent economic need or substantive business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction,
- there is an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and future settlement.

The table below summarizes the contractual amounts outstanding at 31 December 2016 and 2015 with remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts are recognized in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional Amount	
	2016 GEL'000	2015 GEL'000
Sell USD buy GEL		
Less than 3 months	14,399	16,195
Between 3 and 12 months	43,302	34,571
	57,701	**50,766**
Sell EUR buy GEL		
Between 3 and 12 months	4,191	-
More than 1 year	-	3,925
	4,191	**3,925**
Sell USD buy EUR		
Between 3 and 12 months	**2,382**	**2,108**

11 Loans to customers

	2016 GEL'000	2015 GEL'000
Principal	142,490	103,032
Interest	3,020	2,091
Total loans to customers	**145,510**	**105,123**
Loans to retail customers		
Agriculture	42,940	29,857
Service	39,917	26,234
Trade	27,664	20,710
Consumer	25,139	19,579
Pawn shop	7,786	6,961
Manufacturing	5,570	4,291
Total loans to retail customers	**149,016**	**107,632**
Gross loans to customers		
Impairment allowance	(3,506)	(2,509)
Net loans to customers	**145,510**	**105,123**

All loans to customers are measured at amortised cost. The loans to customers are classified by types based on a combination of factors (mainly the income source of the borrowers and the purpose of the loan). Loans taken by individual business owners for consumer purposes are presented in relevant categories according to the business activity types of the borrowers (Trade, Service, and Agriculture).

Movements in the loan impairment allowance for the year ended 31 December are as follows:

	2016				2015
GEL'000	**12 month ECL**	**Lifetime ECL - not credit-impaired**	**ECL credit impaired**	**Total**	**Total**
Balance at the beginning of the year per IAS 39	-	-	-	2,509	1,526
Adjustment due to IFRS 9 application	-	-	-	(211)	
Balance at the beginning of the year per IFRS 9	695	1,254	349	2,298	
Transfer to 12-month ECL	9	(9)	-	-	
Transfer to lifetime ECL not credit-impaired	(34)	34	-	-	
Transfer to lifetime ECL credit-impaired	(13)	(33)	46	-	
Net charge for the year	473	530	1932	2,935	1,729
Written off for the year	(70)	(48)	(2,305)	(2,423)	(1,351)
Recoveries	62	7	476	545	357
Foreign exchange loss	52	76	23	151	248
Balance at the end of the year	**1,174**	**1,811**	**521**	**3,506**	**2,509**

The following table provides information by types of loan products as at 31 December 2016:

	Gross amount GEL'000	ECL allowance GEL'000	Carrying amount GEL'000
Loans to retail customers:			
Agriculture	42,940	(1,678)	41,262
Service	39,917	(715)	39,202
Trade	27,664	(591)	27,073
Consumer	25,139	(361)	24,778
Pawn shop	7,786	(28)	7,758
Manufacturing	5,570	(133)	5,437
Total loans to customers	**149,016**	**(3,506)**	**145,510**

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

	Gross amount GEL'000	Impairment allowance GEL'000	Carrying amount GEL'000
Loans to retail customers:			
Agriculture	29,840	(972)	28,868
Service	26,233	(614)	25,619
Trade	20,711	(492)	20,219
Consumer	19,580	(303)	19,277
Pawn shop	6,976	(34)	6,942
Manufacture	4,292	(94)	4,198
Total loans to customers	**107,632**	**(2,509)**	**105,123**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2016:

	Gross loans GEL'000	12 month ECL GEL'000	Lifetime ECL - not credit-impaired GEL'000	Lifetime ECL - credit-impaired GEL'000	Total ECL GEL'000	Net loans GEL'000	ECL allowance to gross loans %
Loans to retail customers							
Agriculture loans							
- not overdue (A,B,C,C1,C2)	40,367	(220)	(720)	-	(940)	39,427	2%
- overdue less than 30 days (C3)	451	(61)	-	-	(61)	390	14%
- overdue 30-89 days (D,D1)	530	-	(160)	-	(160)	370	30%
-restructured (R1, R2)	1,243	-	(321)	(17)	(338)	905	27%
- default (D2,D3,E)	349	-	-	(179)	(179)	170	51%
Total agriculture loans	**42,940**	**(281)**	**(1,201)**	**(196)**	**(1,678)**	**41,262**	**4%**
Service loans							
- not overdue (A,B,C,C1,C2)	38,605	(324)	(23)	-	(347)	38,258	1%
- overdue less than 30 days (C3)	249	(34)	-	-	(34)	215	14%
- overdue 30-89 days (D,D1)	71	-	(22)	-	(22)	49	31%
-restructured (R1, R2)	805	-	(202)	(11)	(213)	592	26%
- default (D2,D3,E)	187	-	-	(99)	(99)	88	53%
Total service loans	**39,917**	**(358)**	**(247)**	**(110)**	**(715)**	**39,202**	**2%**
Trade loans							
- not overdue (A,B,C,C1,C2)	26,509	(219)	(40)	-	(259)	26,250	1%
- overdue less than 30 days (C3)	334	(45)	-	-	(45)	289	13%
- overdue 30-89 days (D,D1)	88	-	(28)	-	(28)	60	32%
-restructured (R1,R2)	593	-	(135)	(49)	(184)	409	31%
- default (D2,D3,E)	140	-	-	(75)	(75)	65	54%
Total trade loans	**27,664**	**(264)**	**(203)**	**(124)**	**(591)**	**27,073**	**2%**
Consumer loans							
- not overdue (A,B,C,C1,C2)	24,649	(201)	(20)	-	(221)	24,428	1%
- overdue less than 30 days (C3)	90	(12)	-	-	(12)	78	13%
- overdue 30-89 days (D,D1)	44	-	(14)	-	(14)	30	32%
-restructured (R1,R2)	269	-	(65)	(4)	(69)	200	26%
- default (D2,D3,E)	87	-	-	(45)	(45)	42	52%
Total consumer loans	**25,139**	**(213)**	**(99)**	**(49)**	**(361)**	**24,778**	**1%**
Pawn shop loans							
- not overdue (P)	7,530	-	(27)	-	(27)	7,503	0.4%
- overdue less than 30 days (P)	256	-	(1)	-	(1)	255	0.4%
Total pawn shop loans	**7,786**	**-**	**(28)**	**-**	**(28)**	**7,758**	**0.4%**
Manufacture loans							
- not overdue (A,B,C,C1,C2)	5,269	(44)	(4)	-	(48)	5,221	1%
- overdue less than 30 days (C3)	101	(14)	-	-	(14)	87	14%
- overdue 30-89 days (D,D1)	3	-	(1)	-	(1)	2	33%
-restructured (R1,R2)	127	-	(28)	(3)	(31)	96	24%
- default (D2,D3,E)	70	-	-	(39)	(39)	31	56%
Total manufacture loans	**5,570**	**(58)**	**(33)**	**(42)**	**(133)**	**5,437**	**2%**
Total loans to customers	**149,016**	**(1,174)**	**(1,811)**	**(521)**	**(3,506)**	**145,510**	**2%**

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

	Gross loans GEL'000	Impairment allowance GEL'000	Net loans GEL'000	Impairment allowance to gross loans %
Loans to retail customers				
Agriculture loans				
- not overdue	27,994	(253)	27,741	1%
- overdue less than 30 days	333	(57)	276	17%
- overdue 30-89 days	584	(224)	360	38%
- overdue 90-179 days	264	(139)	125	53%
-restructured	665	(299)	366	45%
Total agriculture loans	**29,840**	**(972)**	**28,868**	**3%**
Service loans				
- not overdue	25,250	(229)	25,021	1%
- overdue less than 30 days	270	(47)	223	17%
- overdue 30-89 days	83	(32)	51	39%
- overdue 90-179 days	101	(58)	43	57%
- restructured	529	(248)	281	47%
Total service loans	**26,233**	**(614)**	**25,619**	**2%**
Trade loans				
- not overdue	19,983	(181)	19,802	1%
- overdue less than 30 days	114	(20)	94	18%
- overdue 30-89 days	83	(30)	53	36%
- overdue 90-179 days	118	(66)	52	56%
- restructured	413	(195)	218	47%
Total trade loans	**20,711**	**(492)**	**20,219**	**2%**
Consumer loans				
- not overdue	19,245	(176)	19,069	1%
- overdue less than 30 days	105	(18)	87	17%
- overdue 30-89 days	64	(24)	40	38%
- overdue 90-179 days	43	(25)	18	58%
- restructured	123	(60)	63	49%
Total consumer loans	**19,580**	**(303)**	**19,277**	**2%**
Pawn shop loans				
- not overdue	6,749	(33)	6,716	0.5%
- overdue less than 30 days	217	(1)	216	0.5%
- overdue 30-89 days	10	-	10	0.0%
Total pawn shop loans	**6,976**	**(34)**	**6,942**	**0.5%**
Manufacture loans				
- not overdue	4,138	(37)	4,101	1%
- overdue less than 30 days	43	(8)	35	19%
- overdue 30-89 days	35	(13)	22	37%
- overdue 90-179 days	34	(19)	15	56%
- restructured	42	(17)	25	40%
Total manufacture loans	**4,292**	**(94)**	**4,198**	**2%**
Total loans to customers	**107,632**	**(2,509)**	**105,123**	**2%**

(b) Key assumptions and judgments for estimating loan impairment

Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to the credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Upon disbursement of a loan, an exposure score is assigned based on the predetermined criteria, which is later reflected in grades.

Grades upon disbursement of a loan:

A > 88 scores
B > 82-87 scores
C > 71-81 scores
C1 not applicable (agro cards and seasonal loans, to which rating is not applied)

Grades in case of arrears:

C3 > 1-30 day arrears
D > 31-60 day arrears
D1 > 61-90 day arrears
D2 > 91-120 day arrears
D3 > 121-180 arrears
E > 181 day arrears

Grades for restructured loans:

R1 current restructuring and restructuring for 1-90 day arrears
R2 restructuring for arrears >90 days

Grading for pawnshop portfolio:

P the entire pawnshop portfolio falls in the given grade

Default grades:

Default grades are represented by D2, D3, E, R2 categories for which the different provision rates are used by the Company.

Watch loans:

C2 category is represented by the loans, which were in grades D, D1 and R1 due to arrears or classified as C2 by the Risk Department of the Company based on the analysis of the relevant criteria.

Grade changes

Any loans from C3 grade, which is no longer in arrears, move to A, B, C and C1 grades.

If loans from D and D1 grades are no longer in arrears, they move to C2 grade. In case of arrears, a loan goes back to the relevant grade.

If payments are duly made of R1 grade loans for at least 6 months and at least 50% of annual instalment is repaid, additional financial analysis is performed; Based on the Risk Committee decision and by the will of the client refinancing may be applied though disbursement of a new loan. Such loan is assigned to C2 grade right upon its disbursement.

D2, D3, E and R2 loans permanently remain in the given grades.

In case if increased risks are detected with respect to A, B, C and C1 loans, they may be transferred to C2 grade based on the following groups:

- Loan officer
- Branch
- Location (city; region)
- Client sub-sector (livestock, greenhouses, internal transportation and etc.)
- Any specific loan
- Any specific client

Recommendation on transfer of loans to C2 grade by the given groups is made by the Risk Department of the Company based on respective analysis and approval by the Executive Board. The following circumstances should serve as a basis for the recommendation:

- Expected low yield or low prices on certain agricultural crops
- Expected financial shocks and volatility is some business sector
- Expected political or criminal tension in a specific region or city
- Expected high risks in a certain branch, where internal fraud has been identified;

The branch is characterised by low degree of risk identification or high-risk appetite:

- A certain branch has been included in the watch list based on its risk indicator
- Inexperienced branches, launched in regions unfamiliar for Crystal.
- A loan officer, who has been included in the watch list base on risk indicator
- A client, who has been included in the watch list, which actions are suspicions, brings suspicious clients, there are reasonable grounds to suspect that the client is related to other clients, suspicions are based on the findings of the internal audit.
- Internal audit report on the high risk of a certain branch.
- Other argument, which is justified with due analysis and assumptions

Change of grade also occurs for refinancing of a loan; upon disbursement of a new loan, rating is calculated based on updated information.

A, B, C and C1 grade loans, which have been transferred to C2 grade, go back to their original grades if the above mentioned risk factors no longer exist.

D and D1 go back to their original grades based on days in arrears.

Definition of default

The Company recognizes default in the following cases:

- Arrears including restructured loans >90 days
- Decease of a client
- Force majeure, when a client becomes insolvent due to external factors beyond the control
- Pawnshop default point is arrears >30 days

The definition of default is in line with relevant regulations taking into account the 90 days past due cap presumption IFRS 9.

The loans for which the Company recognizes default are credit impaired loans.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default.
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-months PD (probability of default) and lifetime PD.

Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL (expected credit loss).

The Company has identified and documented the key drivers of credit risk and credit losses for the portfolio using an analysis of historical data, has assessed impact of macro-economic variables on probability of default and recovery rate. The following macro-economic variables were involved in the analysis:

- Real growth rate of GDP of Georgia

- Inflation rate
- Remittances
- GEL/USD real effective exchange rate

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD)
- loss given default (LGD)
- exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

Probability of default (PD)

PD estimates are estimates at a certain date, which are calculated based on statistical rating models.

If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

PDs are calculated based on two-year average and then 1-year and lifetime PDs are derived by extrapolating using migration matrices.

Loss given default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD model considers the structure, collateral, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

LGD is calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

Exposure at default (EAD)

EAD represents the expected exposure in the event of default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

Changes in this estimate could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 December 2016 would be GEL 4,471 thousand lower/higher (2015: GEL 3,229 thousand).

(c) Analysis of collateral and other credit enhancements

(i) Loans to retail customers

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

	2016 GEL'000	**% of loan portfolio**	**2015 GEL'000**	**% of loan portfolio**
Loans with no collateral	93,004	64%	69,735	66%
Loans with collateral	52,506	36%	35,388	34%
Total	**145,510**	**100%**	**105,123**	**100%**

Loans with collateral are mainly secured by real estate, movable property and precious metals. In addition, the majority of the loans are collateralized by sureties. Secured loans are mainly included in the pawn shop, service, trade and agricultural loan categories. The Company's policy is to issue such loans with a loan-to-value ratio at the date of loan issuance of a maximum of 60%.

Management estimates that the fair value of collateral estimated at the inception of the loans is at least equal to the carrying amounts of corresponding secured loans as at 31 December 2016 and 2015, excluding the effect of overcollateralization. Due to the low loan-to-value ratio, the management does not expect any possible negative movements in market prices to have a significant impact on recoverability of the loans.

Sureties received from individuals are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral.

Repossessed assets are presented in other assets (see note 14).

(d) Loan maturities

The maturity of the loan portfolio is presented in note 18(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

12 Property and equipment

GEL'000	Buildings	Vehicles	Furniture	IT equipment	Leasehold improvements	Other	Total
Cost							
Balance at 1 January 2016	95	213	496	1,308	2,670	1,714	6,496
Additions	10	169	156	325	1,066	694	2,420
Disposals	-	(33)	-	(5)	(11)	(2)	(51)
Balance at 31 December 2016	**105**	**349**	**652**	**1,628**	**3,725**	**2,406**	**8,865**
Depreciation							
Balance at 1 January 2016	(29)	(46)	(251)	(661)	(1,023)	(948)	(2,958)
Depreciation for the year	(3)	(61)	(110)	(235)	(565)	(397)	(1,371)
Disposals	-	9	-	4	11	2	26
Balance at 31 December 2016	**(32)**	**(98)**	**(361)**	**(892)**	**(1,577)**	**(1,343)**	**(4,303)**
Carrying amount							
At 31 December 2016	**73**	**251**	**291**	**736**	**2,148**	**1,063**	**4,562**

GEL'000	Buildings	Vehicles	Furniture	IT equipment	Leasehold improvements	Other	Total
Cost							
Balance at 1 January 2015	95	133	356	1,078	1,904	1,089	4,655
Additions	-	157	142	250	768	649	1,966
Disposals	-	(77)	(2)	(20)	(2)	(24)	(125)
Balance at 31 December 2015	**95**	**213**	**496**	**1,308**	**2,670**	**1,714**	**6,496**
Depreciation							
Balance at 1 January 2015	(26)	(84)	(158)	(461)	(587)	(613)	(1,929)
Depreciation for the year	(3)	(30)	(94)	(214)	(438)	(356)	(1,135)
Disposals	-	68	1	14	2	21	106
Balance at 31 December 2015	**(29)**	**(46)**	**(251)**	**(661)**	**(1,023)**	**(948)**	**(2,958)**
Carrying amount							
At 1 January 2015	69	49	198	617	1,317	476	2,726
At 31 December 2015	**66**	**167**	**245**	**647**	**1,647**	**766**	**3,538**

Other property and equipment mainly consist of security systems and generators.

There are no capitalized borrowing costs related to the acquisition or construction of property and equipment during 2016 (2015: nil).

13 Intangible assets

GEL'000	Computer software
Cost	
Balance at 1 January 2015	1,219
Additions	482
At 31 December 2015	**1,701**
Additions	237
At 31 December 2016	**1,938**
Amortization	
Balance at 1 January 2015	(326)
Amortization for the year	(176)
Balance at 31 December 2015	**(502)**
Amortization for the year	(246)
Balance at 31 December 2016	**(748)**
Carrying amounts	
At 1 January 2015	893
At 31 December 2015	**1,199**
At 31 December 2016	**1,190**

14 Other assets

	2016 GEL'000	2015 GEL'000
Other receivables	999	488
Receivables form personnel	3	2
Total other financial assets	**1,002**	**490**
Repossessed assets	599	361
Prepayments	667	388
Prepayments for non-current assets	-	46
Total other non-financial assets	**1,266**	**795**
Total other assets	**2,268**	**1,285**

15 Loans and borrowings

This note provides information about the contractual terms of interest-bearing loans and borrowings which are measured at amortized cost. For more information about exposure to interest rate, foreign currency and liquidity risks, see note 18.

	2016 GEL'000	2015 GEL'000
Principal	129,787	96,289
Interest accrued	2,355	1,677
	132,142	**97,966**

The Company's major lenders include:

	2016 GEL'000	2015 GEL'000
Non-current liabilities		
Unsecured loans from financial institutions	**60,635**	**67,082**
Current liabilities		
Unsecured loans from financial institutions	**71,507**	**30,884**
Total loans and borrowings	**132,142**	**97,966**

(a) Subordinated borrowings

As at 31 December 2016 subordinated borrowings included in unsecured loans from financial institutions comprise loans received from an international financial organization, Kfw maturing in 2019 amounting to GEL 4,373 thousand (2015: GEL 4,366 thousand) with an annual interest rate of 11% (2015: 11%). In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Company.

(b) Terms and debt repayment

Terms and conditions of outstanding loans are as follows:

				2016		2015	
GEL' 000	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face Value**	**Carrying Amount**	**Face Value**	**Carrying Amount**
Unsecured loans from financial institutions	USD	7% - 8.26%	2017 – 2019	100,780	100,780	83,083	83,083
Unsecured loans from financial institutions	GEL	9% - 14%	2017 – 2019	28,451	28,451	12,039	12,039
Unsecured loans from financial institutions	EUR	6.5%-8%	2017	2,911	2,911	2,581	2,581
Unsecured loan from Ministry of Finance	GEL	2%+inflation	2019	-	-	243	243
Unsecured loan from Ministry of Finance	USD	2%+6m Libor	2019	-	-	20	20
Total interest bearing liabilities				**132,142**	**132,142**	**97,966**	**97,966**

(d) Unused credit line facilities

On 10 June 2016 the Company, signed a credit line agreement with JSC TBC Bank with an available facility of GEL 3,000 thousand expiring in 2017. On 11 April 2016 the Company signed a loan agreement with Bank of Georgia with an available facility of GEL 2,000 thousand expiring in 2017.

16 Other liabilities

	2016 GEL'000	2015 GEL'000
Other payables	263	500
Total other financial liabilities	**263**	**500**
Accruals for employee compensation*	573	457
Taxes other than on income	165	67
Other non-financial liabilities	-	23
Total other non-financial liabilities	**738**	**547**
Total other liabilities	**1,001**	**1,047**

* The amount payable to employees in respect of the management incentive plan (please refer to note 6), which have settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitle to payment.

17 Share capital and reserves

(a) Share capital

Share capital as at 31 December 2016:

Shareholder	Number of shares	Common/ non-redeemable preference	Share %	Voting rights	Capital GEL
Fund Crystal	1,450,192	Common	47.96%	47.96%	1,450,192
AGRIF COÖPERATIEF U.A.	1,136,157	Common	37.57%	37.57%	1,136,157
DWM Funds S.C.A-SICAV SIF	378,719	Common	12.52%	12.52%	378,719
Management of the Company	58,925	Common	1.95%	1.95%	58,925
	3,023,993		**100.00%**	**100.00%**	**3,023,993**

Share capital as at 31 December 2015:

Shareholder	Number of shares	Common/ non-redeemable preference	Share %	Voting rights	Capital GEL
Fund Crystal	1,475,593	Common	66.84%	73%	1,475,593
DWM Funds S.C.A-SICAV SIF	485,555	Common	21.99%	24%	485,555
Keith Young	55,305	Common	2.51%	3%	55,305
DWM Funds S.C.A-SICAV SIF	191,177	Non-redeemable preference	8.66%	-	191,177
	2,207,630		**100.00%**	**100.00%**	**2,207,630**

All shares have a nominal value of GEL 1 and are fully paid.

All ordinary shares rank equally with regard to the Company's residual assets. Preference shares participate only to the extent of the face value of the shares, adjusted for any dividends in arrears. Each preference share carries an option for conversion into common shares of the Company.

On 4 December 2015, in general meeting of the Company's shareholders a decision was made to increase the Company's share capital by 771,340 ordinary shares. Out of the 771,340 ordinary shares, 378,719 shares shall be issued to and subscribed to DWM Funds S.C.A.- SICAV SIF, 378,719 shares shall be issued to and subscribed to AGRIF COÖPERATIEF U.A (a new investor); 13,902 shares shall be issued to and subscribed to the Company's management executive team (in the scope of Management Incentive Plan).

By another decision made in the same general meeting, Fund Crystal shall be authorized to sell up to of its 25,401 common shares to AGRIF COÖPERATIEF U.A.; Keith Young shall be authorized to sell up to of his 55,305 common shares to AGRIF COÖPERATIEF U.A. and DWM Funds S.C.A.—SICAV SIF shall be authorized to sell up to 676,732 common shares (which will be held by the shareholder after conversion its preferred shares into common shares) to AGRIF COÖPERATIEF U.A.

The above changes in the Company's share capital were registered in the State Register in 2016.

In addition, on 20 May 2016 Supervisory Board approved to issue 45,024 ordinary shares to the Management of the Company (27,578 ordinary shares to be settled as a share-based payments for meeting the Company wide targets and 17,446 ordinary shares for fulfilment of the individual and discretionary targets in the scope of Management Incentive Plan for 2015).

(b) Share based payment reserve

During 2016 increase in share based payment reserve was due to equity settled share-based payments of GEL 362 thousand (2015: GEL 488 thousand) comprising 22,322 ordinary shares (2015: 41,480 ordinary shares), please refer to note 6 for details.

During 2016 41,480 shares issued in the scope of Management Incentive Plan for 2015 and 2014 were registered, thus resulted in decrease in share based payment reserve and increase in the share capital.

(c) Dividends

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Company.

In accordance with Georgian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's financial statements prepared in accordance with IFRS.

Based on shareholders decision dated 20 May 2016 dividends of GEL 374 thousand (2015: nil) were declared and paid.

18 Risk management, corporate governance and internal control

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

(a) Risk management policies and procedures

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

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

The Company's Executive Board Risk Committee and the Finance Department are responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Executive Board.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Company established a hierarchy of credit committees depending on the type and amount of the exposure.

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

(b) Market risk

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

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

Overall authority for market risk is vested in the ALCO.

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company 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:

GEL '000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2016							
ASSETS							
Cash and cash equivalents	3,026	-	-	-	-	7,329	10,355
Loans to customers	29,045	18,396	37,887	60,182	-	-	145,510
	32,071	**18,396**	**37,887**	**60,182**	**-**	**7,329**	**155,865**
LIABILITIES							
Loans and borrowings	11,140	20,698	39,669	60,635	-		132,142
	20,931	**(2,302)**	**(1,782)**	**(453)**	**-**	**7,329**	**23,723**
GEL '000							
31 December 2015							
ASSETS							
Cash and cash equivalents	1,939	-	-	-	-	2,715	4,654
Term deposit	-	100	-	-	-	-	100
Loans to customers	11,138	4,825	18,870	70,060	230	-	105,123
	13,077	**4,925**	**18,870**	**70,060**	**230**	**2,715**	**109,877**
LIABILITIES							
Loans and borrowings	4,539	11,570	14,775	67,082	-	-	97,966
	8,538	**(6,645)**	**4,095**	**2,978**	**230**	**2,715**	**11,911**

Average effective interest rates

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

	2016 Average effective interest rate, %			**2015** Average effective interest rate, %		
	GEL	**USD**	**EUR**	**GEL**	**USD**	**EUR**
Interest bearing assets						
Loans to customers	37%	27%	-	37%	30%	-
Interest bearing liabilities						
Loans and borrowings	14%	8%	7%	12%	9%	7%

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2016 and 2015, is as follows:

	2016	**2015**
	GEL'000	**GEL'000**
100 bp parallel fall	(194)	(50)
100 bp parallel rise	194	50

(ii) Currency risk

The Company has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Company hedges its exposure to currency risk through use of back to back loans which are classified as derivatives (see note 10 (a)), such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2016:

	EUR	**USD**	**Total**
	GEL'000	**GEL'000**	**GEL'000**
ASSETS			
Cash and cash equivalents	1,695	3,396	5,091
Loans to customers	-	36,821	36,821
Other financial assets	-	53	53
Total assets	**1,695**	**40,270**	**41,965**
LIABILITIES			
Loans and borrowings	2,911	100,780	103,691
Other financial liabilities	-	16	16
Total liabilities	**2,911**	**100,796**	**103,707**
Net position	**(1,216)**	**(60,526)**	**(61,742)**
The effect of derivatives held for risk management	**1,809**	**60,083**	**61,892**
Net position after derivatives held for risk management purposes	**593**	**(443)**	**150**

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

	EUR	USD	Total
	GEL'000	GEL'000	GEL'000
ASSETS			
Cash and cash equivalents	964	2,112	3,076
Loans to customers	-	27,941	27,941
Other financial assets	-	21	21
Total assets	**964**	**30,074**	**31,038**
LIABILITIES			
Loans and borrowings	2,652	83,277	85,929
Total liabilities	**2,652**	**83,277**	**85,929**
Net position	**(1,688)**	**(53,203)**	**(54,891)**
The effect of derivatives held for risk management	**1,817**	**52,874**	**54,691**
Net position after derivatives held for risk management purposes	**129**	**(329)**	**(200)**

The following significant exchange rates were applied during the year:

in GEL	**Average rate**		**Reporting date spot rate**	
	2016	**2015**	**2016**	**2015**
USD 1	2.3667	2.2702	2.6468	2.3949
EUR 1	2.6171	2.5969	2.7940	2.6169

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2016 and 2015, would have increased (decreased) profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2016	2015
	GEL'000	GEL'000
10% appreciation of USD against GEL	(38)	(28)
10% appreciation of EUR against GEL	50	11

A strengthening of the GEL against the above currencies at 31 December 2016 and 2015 would have had the equal opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(c) Credit risk

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

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

The credit policy establishes:

– procedures for reviewing and approving loan credit applications
– methodology for the credit assessment of borrowers
– methodology for the evaluation of collateral
– credit documentation requirements
– procedures for the ongoing monitoring of loans and other credit exposures

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

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

Assessment of the applicant’s creditworthiness through monitoring of its business allows timely avoidance the risk of financial loss. Monitoring is performed by credit officers who report the results to the management. Regular monitoring of loans is also performed by the Monitoring Department. For timely response to potential risks, monitoring results are presented to the top management on monthly basis. The monitoring system helps to manage credit risks and to minimize them in a timely manner.

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

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

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

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 11.

As at 31 December 2016 the Company has no debtors or groups of connected debtors (2015: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

(d) Liquidity risk

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

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

The Company seeks to actively support a diversified and stable funding base comprising long- term and short-term loans from other banks and other financial institutions, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

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

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

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

The maturity analysis for financial assets and liabilities as at 31 December 2016 is as follows:

GEL'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross Amount outflow	Carrying amount
Non-derivative liabilities							
Loans and borrowings	1,877	10,223	22,742	43,777	66,155	144,774	132,142
Other financial liabilities	136	-	44	-	83	263	263
Total financial liabilities	**2,013**	**10,223**	**22,786**	**43,777**	**66,238**	**145,037**	**132,405**

The maturity analysis for financial assets and liabilities as at 31 December 2015 is as follows:

GEL'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Loans and borrowings	446	4,643	13,502	18,085	73,639	110,315	97,966
Other financial liabilities	398	-	102	-	-	500	500
Total financial liabilities	**844**	**4,643**	**13,604**	**18,085**	**73,639**	**110,815**	**98,466**

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2016:

GEL'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	10,355	-	-	-	-	-	-	10,355
Financial instruments at fair value through profit or loss:								
- Outflow	-	(12,807)	(43,810)	-	-	-	-	(56,617)
- Inflow	-	14,399	49,875	-	-	-	-	64,274
Loans to customers	13,713	14,704	55,604	58,895	-	-	2,594	145,510
Property and equipment	-	-	-	-	-	4,562	-	4,562
Intangible assets	-	-	-	-	-	1,190	-	1,190
Deferred tax assets	-	-	-	-	-	1,457	-	1,457
Other assets	1,139	10	357	163	-	599	-	2,268
Total assets	**25,207**	**16,306**	**62,026**	**59,058**	**-**	**7,808**	**2,594**	**172,999**
LIABILITIES								
Loans and borrowings	1,772	9,368	60,367	60,635	-	-	-	132,142
Current tax liability	-	-	830	-	-	-	-	830
Other liabilities	-	-	1,001	-	-	-	-	1,001
Total liabilities	**1,772**	**9,368**	**62,198**	**60,635**	**-**	**-**	**-**	**133,973**
Net position	**23,435**	**6,938**	**(172)**	**(1,577)**	**-**	**7,808**	**2,594**	**39,026**

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2015:

GEL'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	4,654	-	-	-	-	-	-	4,654
Time deposit	-	-	100	-	-	-	-	100
Financial instruments at fair value through profit or loss:								
- Outflow	(3,941)	(9,860)	(35,440)	(3,320)	-	-	-	(52,561)
- Inflow	4,929	11,267	36,678	3,925	-	-	-	56,799
Loans to customers	3,776	6,978	23,141	69,101	230	-	1,897	105,123
Property and equipment	-	-	-	-	-	3,538	-	3,538
Intangible assets	-	-	-	-	-	1,199	-	1,199
Deferred tax assets	-	-	-	-	-	1,049	-	1,049
Other assets	878	46	-	-	-	361	-	1,285
Total assets	**10,296**	**8,431**	**24,479**	**69,706**	**230**	**6,147**	**1,897**	**121,186**
LIABILITIES								
Loans and borrowings	374	4,165	26,345	67,082	-	-	-	97,966
Current tax liability	-	-	512	-	-	-	-	512
Other liabilities	673	-	374	-	-	-	-	1,047
Total liabilities	**1,047**	**4,165**	**27,231**	**67,082**	**-**	**-**	**-**	**99,525**
Net position	**9,249**	**4,266**	**(2,752)**	**2,624**	**230**	**6,147**	**1,897**	**21,661**

19 Capital management

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
- 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.

The Company is in compliance with minimum statutory capital requirements – the minimum cash contribution in the equity should not be less then GEL 250 thousand.

The Company also monitors its capital adequacy levels to comply with debt covenants, calculated in accordance with the lenders requirements. As at 31 December 2016 and 2015 the Company was in compliance with the capital adequacy requirements.

20 Operating leases

Leases as lessee

All lease agreements are cancellable upon the Company giving notice to the landlord. Notice periods generally vary from one to three months. Non-cancellable minimum lease rentals are payable as follows:

	2016 GEL'000	**2015 GEL'000**
Less than 1 year	**409**	**227**

The Company leases a number of premises under operating leases. The leases typically run for an initial period of three to five years, with an option to renew the lease after that date. Lease payments are usually increased every two or three years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

21 Contingencies

(a) Litigation

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.

(b) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

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

22 Related party transactions

(a) Control relationships

The Company's major shareholder is Crystal Fund with 47.96% shareholding (please refer to note 17(a) for the shareholding structure).

In 2015 the Company's parent company and ultimate controlling party was Crystal Fund.

(b) Transactions with members of the Supervisory and Executive Boards

Total remuneration and consulting fees included in personnel expenses for the years ended 31 December 2016 and 2015 is as follows:

	2016 GEL'000	2015 GEL'000
Salaries and bonuses	442	529
Share based payment transaction	719	488
Profit sharing plan	233	332
Consulting fees	327	291
	1,721	**1,640**

(a) Other related party transactions

'000 GEL	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2016	**2015**	**2016**	**2015**
Other				
JSC Mobile Finance Services - Georgia*	84	-	84	-
	84	**-**	**84**	**-**

* JSC Mobile Finance Services – Georgia is owned by three members of Supervisory Board of the Company.

23 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities. The estimated fair values of all financial instruments approximate their carrying values. The principles for determining fair values is disclosed in note 3 (c).

The estimated fair values of all financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The Company uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate and currency swaps.

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

- discount rates of 27-37% are used for discounting future cash flows from loans to customers (2015: 30-37%);
- discount rates of 8%-12% are used for discounting future cash flows from loans and borrowings (2015: 9-12%).

As at 31 December 2016 and 2015, the Company does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

(b) Fair value hierarchy

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

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

The table below analyses financial instruments measured at fair value at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

GEL '000	**Level 2**
Financial instruments at fair value through profit or loss	
- Derivative assets	**7,657**

The table below analyses financial instruments measured at fair value at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

GEL '000	**Level 2**
Financial instruments at fair value through profit or loss	
- Derivative assets	**4,238**

24 Events after the reporting period

In March 2017 the Company had signed credit line agreement with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO Entrepreneurial Development Bank) amounted to USD 10,000 thousand with seven years maturity date at floating interest rate.

In March 2017 the Company had signed loan agreement with Blue Orchard Microfinance Fund amounted to USD 5,000 thousand with three years maturity date at floating interest rate.

In April 2017 the Company had signed a loan agreement with TBC bank amounted to GEL 5,000 thousand with one year maturity date at 13.5% per annum.