JSC Microfinance Organization Crystal

Financial Statements and
Independent Auditor’s Report
For the Year Ended December 31, 2017

JSC MICROFINANCE ORGANIZATION CRYSTAL

TABLE OF CONTENTS

JSC MICROFINANCE ORGANIZATION CRYSTAL

Statement of management's responsibilities for the preparation and approval of the financial statements for the year ended December 31, 2017

Management is responsible for the preparation of the financial statements that present fairly the financial position of Joint Stock Company Microfinance Organization Crystal (the "Company") as at December 31, 2017, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended December 31, 2017 were authorized for issue on May 4, 2018 by the Board of Directors of the Company.

On behalf of the Board of Directors:

Davit Bendeliani
Chief Executive Officer

May 4, 2018
Tbilisi, Georgia

Deloitte.

Deloitte & Touche LLC
36A Lado Asatiani Street
Tbilisi, 0105,
Georgia

Tel: +995 (32) 224 45 66
Fax: +995 (32) 224 45 69

Independent Auditors' Report

To the Shareholders and the Supervisory Board of Joint Stock Company Microfinance Organization Crystal:

Opinion

We have audited the financial statements of Joint Stock Company Microfinance Organization Crystal (the "Company"), which comprise the statement of financial position as at December 31, 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Emphasis of Matter

As explained in Note 2, for the year ended December 31, 2016, the Company has early adopted IFRS 9 Financial Instruments ("IFRS 9") issued in July 2014 with a date of initial application of January 1, 2016. Application of IFRS 9 has a material impact on the financial statements. Our opinion is not qualified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Report but does not include the financial statements and our auditor's report thereon. Management Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Other Matter

The financial statements of the Company for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on June 7, 2017.

Deloitte.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Tamar Natsvlishvili
on behalf of Deloitte and Touche LLC

Deloitte & Touche

May 4, 2018
Tbilisi, Georgia

JSC MICROFINANCE ORGANIZATION CRYSTAL

Statement of profit or loss and other comprehensive income
for the year ended December 31, 2017
(in thousands of Georgian Lari)

	Notes	2017	2016
Interest income	6	53,847	43,250
Interest expense	6	(13,754)	(10,132)
Net interest income before impairment losses on interest bearing assets		**40,093**	**33,118**
Impairment losses on interest bearing assets	13	(3,712)	(2,935)
Net interest income		**36,381**	**30,183**
Fee and commission income	7	1,719	2,335
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	12	(3,877)	2,186
Net foreign exchange gain/(loss)		893	(5,238)
Other income		30	70
Net non-interest expenses		**(1,235)**	**(647)**
Operating income		**35,146**	**29,536**
Personnel expenses	8	(14,157)	(11,779)
Depreciation and amortization expenses	14, 15	(1,919)	(1,617)
Other operating expenses	9	(9,005)	(6,929)
Profit before income tax		**10,065**	**9,211**
Income tax expense	10	(1,930)	(1,872)
Net profit for the year		**8,135**	**7,339**
Other comprehensive income		-	-
Total comprehensive income for the year		**8,135**	**7,339**

On behalf of the Board of Directors:

დ. ბენდელიანი

Davit Bendeliani
Chief Executive Officer

May 4, 2018
Tbilisi, Georgia

The notes on pages 8-65 form an integral part of these financial statements.

Statement of financial position
as at December 31, 2017
(in thousands of Georgian Lari)

	Notes	December 31, 2017	December 31, 2016
ASSETS			
Cash and cash equivalents	11	14,320	10,355
Financial assets at fair value through profit or loss	12	1,585	7,657
Loans to customers	13	198,045	145,510
Property and equipment	14	5,309	4,562
Intangible assets	15	1,325	1,190
Deferred tax assets	10	1,954	1,457
Other assets	16	3,615	2,268
Total assets		**226,153**	**172,999**
LIABILITIES			
Financial liabilities at fair value through profit or loss	12	591	-
Borrowed funds	17	167,700	132,142
Debt securities issued	18	9,880	-
Current income tax liability		297	830
Other liabilities	19	1,369	1,001
Total liabilities		**179,837**	**133,973**
EQUITY			
Share capital	20	3,052	3,024
Share premium		12,551	12,130
Share based payment reserve	20	68	362
Retained earnings		30,645	23,510
Total equity		**46,316**	**39,026**
Total liabilities and equity		**226,153**	**172,999**

On behalf of the Board of Directors:

Davit Bendeliani
Chief Executive Officer

May 4, 2018
Tbilisi, Georgia

The notes on pages 8-65 form an integral part of these financial statements.

JSC MICROFINANCE ORGANIZATION CRYSTAL

Statement of changes in equity
for the year ended December 31, 2017
(in thousands of Georgian Lari)

	Notes	Share capital	Share premium	Share based payment reserve	Retained earnings	Total
January 1, 2016		**2,208**	**2,631**	**488**	**16,545**	**21,872**
Total comprehensive income for the year		-	-	-	7,339	7,339
Issue of ordinary shares	20	757	8,786	-	-	9,543
Dividends declared and paid	20	-	-	-	(374)	(374)
Share based payment accrual		-	-	646	-	646
Increase in share capital arising from share based payment	20	59	713	(772)	-	-
December 31, 2016		**3,024**	**12,130**	**362**	**23,510**	**39,026**
Total comprehensive income for the year		-	-	-	8,135	8,135
Dividends declared and paid	20	-	-	-	(1,000)	(1,000)
Share based payment accrual		-	-	155	-	155
Increase in share capital arising from share based payment	20	28	421	(449)	-	-
December 31, 2017		**3,052**	**12,551**	**68**	**30,645**	**46,316**

On behalf of the Board of Directors:

Davit Bendeliani
Chief Executive Officer

May 4, 2018
Tbilisi, Georgia

The notes on pages 8-65 form an integral part of these financial statements.

JSC MICROFINANCE ORGANIZATION CRYSTAL

Statement of cash flows
for the year ended December 31, 2017
(in thousands of Georgian Lari)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		10,065	9,211
Adjustments for:			
Net loss/(gain) on financial assets and liabilities at fair value through profit or loss		3,877	(2,186)
Depreciation and amortization	14, 15	1,919	1,617
Interest income	6	(53,847)	(43,250)
Interest expenses	6	13,754	10,132
Impairment losses on interest bearing assets	13	3,712	2,935
Net (gain)/loss from foreign exchange		(893)	5,238
Loss on disposal of property and equipment		37	10
Equity settled share-based payments		155	588
Cash outflow from operating activities before changes in operating assets and liabilities		**(21,221)**	**(15,705)**
Changes in operating assets and liabilities:			
Decrease in term deposits		-	100
Decrease/(increase) in financial assets and liabilities at fair value through profit or loss		2,786	(1,233)
Increase in loans to customers		(56,732)	(37,046)
Increase in other assets		(1,334)	(977)
Increase in other liabilities		294	62
Changes in operating assets and liabilities		**(54,986)**	**(39,094)**
Interest received		52,898	41,339
Interest paid		(13,093)	(9,335)
Income tax paid		(2,960)	(1,962)
Net cash outflow from operating activities		**(39,362)**	**(24,757)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment		(2,437)	(2,420)
Purchases of intangible assets		(432)	(237)
Proceeds from sale of property and equipment		31	-
Cash used in investing activities		**(2,838)**	**(2,657)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowed funds	17	118,487	64,658
Repayments of borrowed funds	17	(81,371)	(41,058)
Proceeds from issue of debt security	18	9,871	-
Proceeds from issue of ordinary shares	20	-	9,601
Dividends paid	20	(1,000)	(475)
Cash flows from financing activities		**45,987**	**32,726**
Net increase in cash and cash equivalents		**3,787**	**5,312**
Effect of exchange rate changes on the balance of cash held in foreign currencies		178	389
Cash and cash equivalents as at the beginning of the year	11	10,355	4,654
Cash and cash equivalents as at the end of the year	11	**14,320**	**10,355**

On behalf of the Board of Directors:

Davit Bendeliani
Chief Executive Officer

May 4, 2018
Tbilisi, Georgia

The notes on pages 8-65 form an integral part of these financial statements.

(in thousands of Georgian Lari)

1. Organization

JSC Microfinance Organization Crystal (“the Company”) was established on August 23, 2007 on the basis of the decision of the Crystal Fund (Board’s Resolution #20, August 21, 2007) according to the Georgian Law on Microfinance Organizations dated 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 forty branches and sixteen service centres (so called “boutiques”) around Georgia and the head office is located in Kutaisi.

As at December 31, 2017 and 2016 the following shareholders owned the Company:

	December 31, 2017	**December 31,2016**
First level shareholders/holders of the issued share capital:		
Fund Crystal	47.52%	47.96%
AGRIF COÖPERATIEF U.A.	37.23%	37.57%
DWM Funds S.C.A-SICAV SIF	12.41%	12.52%
Management of the Company	2.84%	1.95%
Total	**100%**	**100%**

As at December 31, 2017 and 2016 the Company’s major shareholder is Crystal Fund with 47.52% shareholding.

Crystal Fund is a not-for-profit corporation under the laws of Georgia and as such, its Members hold no ownership in the fund and have no economic rights. As at December 31, 2017 and 2016, the Members and ultimate controlling parties of the fund are as follows: Archil Bakuradze, Paata Tsotsonava, Alu Gamakharia, Frederick Rignold Hyde-Chambers, Keith Young and Nikoloz Gegeshidze. Members have equal voting rights in Crystal Fund.

2. Significant accounting policies

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements have been prepared on the assumption that the Company is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in *Georgian Lari ("GEL")*, unless otherwise indicated.

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

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

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

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

The Company is registered in Georgia and maintains its accounting records in accordance with Georgian law. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 26.

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary of the economic environment in which the Company operates ("the functional currency"). The functional currency of the Company is the Georgian Lari ("GEL").

The presentational currency of the financial statements of the Company is the GEL. Financial information presented in GEL is rounded to the nearest thousands, except when otherwise indicated.

Offsetting

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

The principal accounting policies are set out below.

Recognition of interest income and expense

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.
- financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

When calculating the effective interest rate, the Company estimates the expected cash flows by considering all the contractual terms of the financial instrument excluding expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Recognition of fee and commission income

Financial instrument origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the financial instrument.

Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided.

All other fee and commissions are recognized when services are provided.

Financial instruments

For the year ended December 31, 2016, the Company has early adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of January 1, 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.

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). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

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

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' 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.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. 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.

See below explanations, for more information and details of how the Company applies the requirements of IFRS 9.

Initial recognition of financial instruments

Financial assets and financial liabilities are recognised in the Company's financial position when the Company becomes a party to the contractual provisions of the instrument.

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

If the transaction price differs from fair value at initial recognition, the Company accounts for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss).
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Financial assets

Classification and subsequent measurement

On initial recognition, a financial asset is classified into one of the following measurement categories: 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 ("SPPI") on the principal amount outstanding.

A financial asset 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's financial assets classified into the measurement categories are as following:

Financial assets	Business model	SPPI	Measurement category
Derivative financial assets	Other business model	Cash flows are not solely payments of principal and interest	FVTPL
Cash balances in banks	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Loans to customers	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Other receivables	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost

<u>Business model assessment</u>

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.

<u>Assessment whether contractual cash flows are solely payments of principal and interest</u>

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. If the business model under which the Company holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Company's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Company holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and unrestricted balances in banks with original maturity of less or equal to 90 days and are free from contractual encumbrances. Cash and cash equivalents are carried at amortised cost.

Loans to customers and other receivables

Loans to customers and other receivables included in other assets in the statement of financial position are non-derivative financial assets measured at amortised cost. Loans to customers and other receivables are initially measured at fair value and subsequently at their amortised cost using the effective interest method.

Derivative financial instruments

Derivative financial instruments included in financial assets at fair value through profit or loss or loss in the statement of financial position comprise foreign currency forward contracts and currency swaps.

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 financial assets when their fair value is positive and as financial liabilities when their fair value is negative.

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

Impairment

The Company recognises loss allowances for expected credit losses (ECLs) on the financial assets that are not measured at FVTPL.

With the exception of purchased or originated credit-impaired ("POCI") financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

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

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Company under the contract and the cash flows that the Company expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

The Company measures ECL on a collective basis for portfolios of loans that share similar economic risk characteristics.

More information on measurement of ECLs is provided in Note 26, including details on how instruments are grouped when they are assessed on a collective basis.

<u>Credit-impaired financial assets</u>

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. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Company assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default.

The definition of default (see below) includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Company recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Company considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Company; or
- the borrower is unlikely to pay its credit obligations to the Company in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. When assessing if the borrower is unlikely to pay its credit obligation, the Company takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Company uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

See Note 26 for more details about default definition.

Significant increase in credit risk

The Company monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Company will measure the loss allowance based on lifetime rather than 12-month ECL.

The Company's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Company monitors all financial assets that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Company's historical experience and expert credit assessment including forward-looking information.

See Note 26 for more details about forward looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

Forward-looking information includes the future prospects of Georgian economy obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information.

The Company allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward looking and the Company uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However the Company still considers separately some qualitative factors to assess if credit risk has increased significantly. The Company considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a back-stop when an asset becomes 30 days past due, the Company considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

More information about significant increase in credit risk is provided in Note 26.

<u>Presentation of allowance for ECL in the statement of financial position</u>

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value.
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Company renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan terms is modified in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to other terms.

When a financial asset is modified the Company assesses whether this modification results in derecognition. In accordance with the Company's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Company considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Company deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Company monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Company determines if the financial asset's credit risk has increased significantly since initial recognition.

For financial assets modified as part of the Company's restructuring policy, where modification did not result in derecognition, the estimate of PD reflects the Company's ability to collect the modified cash flows taking into account the Company's previous experience of similar restructuring action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Company calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Company measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Company derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset.

Write-off

Loans and debt securities are written off when the Company has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Company may apply enforcement activities to financial assets written off. Recoveries resulting from the Company's enforcement activities will result in impairment gains.

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company or a contract that will or may be settled in the Company's own equity instruments and is a non-derivative contract for which the Company is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Company's own equity instruments.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

<u>Ordinary shares</u>

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.

<u>Share premium</u>

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.

<u>Share based payment reserve</u>

Share-based compensation benefits are provided to employees via the Management Incentive Plan. Information relating to this plan is set out in Note 8.

The fair value of deferred shares granted to employees is measured at the grant date of the shares and is recognised in equity in the share-based payment reserve. The number of shares expected to vest is estimated based on the non-market vesting conditions. The estimates are revised at the end of each reporting period and adjustments are recognised in profit or loss and the share-based payment reserve.

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.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

<u>Financial liabilities at FVTPL</u>

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

Other financial liabilities

'Other financial liabilities', including borrowed funds, debt securities issued and other non-derivative financial liabilities are initially measured at fair value, net of transaction costs.

'Other financial liabilities' are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

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

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Company exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Foreign currencies

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

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

	December 31, 2017	December 31, 2016
GEL/1 US Dollar	2.5922	2.6468
GEL/1 Euro	3.1044	2.7940

Property and equipment

Property and equipment is carried at historical cost less accumulated depreciation and any recognized impairment loss, if any.

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.

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

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

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful lives range from 5 to 10 years.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Intangible assets are assessed for impairment when there is an indication that the intangible assets may be impaired.

Impairment of tangible and intangible assets

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Repossessed assets

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

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

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.

<u>Current tax</u>

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 January 1, 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from January 1, 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 January 1, 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 January 1, 2019 and hence, no deferred income tax assets and liabilities will arise, there on.

Operating taxes

Georgia also has various other taxes, which are assessed on the Company’s activities. These taxes are included as a component of operating expenses in the statement of profit or loss and other comprehensive income.

Employee benefits

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.

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.

Leases

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

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Collateral

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgments in applying accounting policies

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

Classification of financial assets

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Details of the financial assets classification are set out in Note 2.

Key sources of estimation uncertainty

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

Loss allowances for expected credit losses

The following are key estimations that the management have used in the process of applying the Company's accounting policies and that have the most significant effect on the loss allowances for expected credit losses:

- **Establishing forward-looking scenarios:** When measuring ECL the Company uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

  See Note 26 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

- **Probability of default:** PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

  See Note 26 for more details, including analysis of the sensitivity of the reported ECL to changes in PD.

- **Loss Given Default:** LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

  See Note 26 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD.

Useful lives of property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and less any accumulated depreciation losses. The estimation of the useful life of an item of property and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any one of these conditions or estimates may result in adjustments to future depreciation rates.

Recoverability of deferred tax assets

On May 13, 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia effective from January 1, 2019, for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops and from January 1, 2017 for other entities. The new code impacts the recognition and measurement principles of the Company's income tax and it also affects the Company's deferred income tax assets/liabilities. Companies do not have to pay income tax on their profit before tax (earned since January 1, 2017 or January 1, 2019 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops) until that profit is distributed in a form of dividend or other forms of profit distributions. If this law comes into effect for the banking sector from January 1, 2019, it will have a more immediate impact on deferred tax calculations.

The management of the Company is confident deferred income tax assets/liabilities balances will be fully utlisied before the effective date of the law or the effect will be immaterial for the users of financial statements. The carrying value of deferred tax assets amounted to GEL 1,954 thousand and GEL 1,457 thousand as at December 31, 2017 and 2016, respectively.

Fair valuation of financial instruments.

As described in Note 24, the Company uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 24 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The Company management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments

4. Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted:

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

The adopted accounting policies are consistent with those of the previous financial year. There were no new or amended standards or interpretations that resulted in a change of the accounting policy.

Amendments to IAS 7 Disclosure Initiative

The Company has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Company's liabilities arising from financing activities consist of borrowed funds (see Note 17) and debt securities issued (see Note 18). Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior period. The application of these amendments has had no impact on the Company 's financial statements.

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

The Company has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Company's financial statements as the Company already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs - 2014-2016 Cycle

The Company has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Company (see the list of new and revised IFRSs in issue but not yet effective below).

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

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

New and revised IFRSs in issue but not yet effective

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

- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*[1];
- IFRS 16 Leases[2];
- IFRS 17 Insurance Contracts[3];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[1];
- IFRIC 23 *Uncertainty Over Income Tax Treatments*[2];

- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*[1];
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4];
- Amendments to IAS 40 – *Transfers of Investment Property*[1];
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1];
- Amendments to IFRS 9 – *Prepayment Features With Negative Compensation*[2];
- Amendments to IAS 28 – *Long-Term Interests in Associates and Joint Ventures*[2];
- Annual Improvements to IFRSs 2014-2016 Cycle[1];
- Annual Improvements to IFRSs 2015-2017 Cycle[2].

[1] Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.
[3] Effective for annual periods beginning on or after January 1, 2021, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

The Management of the Company does not anticipate that the application of above listed New and revised IFRSs in issue will have an impact on the financial position and/or financial performance of the Company, except for the following:

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

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

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

Furthermore, extensive disclosures are required by IFRS 16.

Management of the Company anticipates that the application of the new standard may have an impact on Company’s financial statements. However, until reliable estimates of the impact are available, further information on the expected impact on the financial position of the Company cannot be provided.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
    a. the original liability is derecognised;
    b. the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
    c. any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after January 1, 2018 with earlier application permitted. Specific transition provisions apply.

The management of the Company does not anticipate that the application of the amendments in the future will have a significant impact on the Company's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

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

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
    - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.

- If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. Entities can apply the Interpretation either fully retrospectively (if it is possible without the use of hindsight) or to apply modified retrospective approach without restatement of comparatives.

The management of the Company does not anticipate that the application of this IFRIC will have a material impact on the Company’s financial statements as the Company currently uses the approach to recognition of uncertain tax position, which is consistent with IFRIC 23.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The narrow-scope amendments remedy an unintended consequence to the notion of ‘reasonable additional compensation’. The amendments allow financial assets with a prepayment option that could result in the option’s holder receiving compensation for early termination to meet the SPPI condition if specified criteria are met.

In addition to that, the IASB considered the accounting for financial liabilities that are modified or exchanged that do not lead to derecognition and as a result included in the Basis for Conclusion two paragraphs on that matter. In those paragraphs the Board observes that the accounting in such cases is the same as it is for modifying a financial asset. If the gross carrying amount is changed it will lead to an immediate gain or loss in profit or loss.

The amendments apply retrospectively to annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The management does not anticipate that the application of these amendments will have a material impact on the Company’s financial statements as it does not have prepayment features with negative compensation.

Annual Improvements to IFRSs 2014-2016 Cycle

The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Company. The package also includes amendments to IFRS 12 which is mandatorily effective for the Company in the current year – see the details of application in section Amendments to IFRSs affecting amounts reported in the financial statements.

The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018.

The management of the Company does not anticipate that the application of the amendments in the future will have any impact on the Company’s financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle

Annual Improvements to IFRSs 2015-2017 Cycle makes amendments to several standards.

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The amendments to IAS 12 clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

All amendments are effective for annual periods beginning on or after January 1, 2019.

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

(in thousands of Georgian Lari)

5. Reclassifications

Certain reclassification have been made to the financial statements for the year ended December 31, 2016 to conform to the presentation for the year ended December 31, 2017. Fines and penalties on loans to customers were classified as other income for the year ended December 31, 2016. As fines and penalties by nature represent compensation for the interest not accrued on the overdue principal amount, it is appropriate to view the amount as an adjustment to the effective interest rate and classify as interest income.

Financial statement line item	**As previously reported 2016**	**Reclassification amount**	**As reclassified 2017**
Other income	1,119	(1,049)	70
Interest income	42,201	1,049	43,250

6. Net interest income

	2017	**2016**
Interest income		
Loans to customers	53,743	43,201
Cash and cash equivalents	104	49
	53,847	**43,250**
Interest expenses		
Borrowed funds	(13,745)	(10,132)
Debt securities issued	(9)	-
	(13,754)	**(10,132)**
Net interest income	**40,093**	**33,118**

Included within various line items under interest income for the year ended December 31, 2017 and 2016 is a total of GEL 530 thousand and GEL 420 thousand accrued on impaired financial assets within loans to customers.

7. Fee and commission income

	2017	**2016**
Fee and commission income from foreign currency conversion	1,449	1,463
Fee and commission income from loans to customers	270	872
	1,719	**2,335**

8. Personnel expenses

	2017	**2016**
Salaries and other benefits	13,840	10,827
Equity settled share-based payments	194	719
Expenses related to Management Incentive Plan	123	233
	14,157	**11,779**

Management Incentive Plan, share based payments

On March 29, 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

(in thousands of Georgian Lari)

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 2017 results, conditions set in the MIP were fulfilled, and as at December 31, 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 December 31, 2017.

As at December 31, 2017 and 2016 fair value of the shares to be settled as share-based payment was GEL 68 thousand and GEL 362 thousand, respectively comprising 3,706 ordinary shares and 27,892 ordinary shares 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 transactions.

The share-based payment transaction is recognized as an increase in the share based payment reserve in the statement of changes in equity.

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**
2016	Shares to be settled	Based on fulfillment of Company wide targets	August 9, 2017	27,892
2017	Shares to be settled	Based on fulfillment of Company wide targets	N/A	3,706

9. Other operating expenses

	2017	**2016**
Operating lease rentals	3,239	2,477
Utilities and communication	962	787
Bank charges	673	599
Marketing and advertising	492	409
Legal and other professional services	455	160
Consumables and office supplies	433	561
Membership fees	363	347
Fuel	343	239
Business trips	308	204
Personnel training and recruitment	166	112
Repairs and maintenance	161	114
Security	149	157
Charity	119	104
Taxes other than on income	107	91
Insurance	71	113
Loss on disposal of property and equipment and intangible assets	37	10
Other	927	445
	9,005	**6,929**

(in thousands of Georgian Lari)

10. Taxation

	2017	2016
Current year tax expense	2,427	2,170
Current tax expense under provided in prior years	-	110
	2,427	**2,280**
Movement in deferred tax assets and liabilities due to origination or/and reversal of temporary differences	(497)	(408)
Total income tax expense	**1,930**	**1,872**

The applicable tax rate for current and deferred tax is 15% for the years ended December 31, 2017 and 2016.

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

	2017	2016
Profit before tax	**10,065**	**9,211**
Income tax at the applicable tax rate	1,510	1,382
Under provided in prior years	-	110
Non-taxable income	420	380
	1,930	**1,872**

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 December 31, 2017 and 2016.

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

Movements in temporary differences during the years ended 31 December 2017 and 2016 are presented as follows.

	January 1, 2017	Recognized in profit or loss	December 31, 2017
Loans to customers	1,137	569	1,706
Property and equipment	17	13	30
Intangible assets	(22)	9	(13)
Loans and borrowings	298	67	365
Other liabilities	27	(161)	(134)
	1,457	**497**	**1,954**

	January 1, 2016	Recognized in profit or loss	December 31, 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**

(in thousands of Georgian Lari)

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Loans to customers	1,706	1,137	-	-	1,706	1,137
Property and equipment	30	17	-	-	30	17
Intangible assets	-	-	(13)	(22)	(13)	(22)
Loans and borrowings	365	298	-	-	365	298
Other liabilities	-	27	(134)	-	(134)	27
Net tax assets/(liabilities)	**2,101**	**1,479**	**(147)**	**(22)**	**1,954**	**1,457**

11. Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand	9,816	3,026
Bank balances	4,504	7,329
Total cash and cash equivalents	**14,320**	**10,355**

None of the balances with banks are past due. No loss allowance is recognised for balances with banks due to short-term nature. Bank balances include current accounts at banks in Georgia and are used for the purpose of the daily activities of the Company.

As at December 31, 2017 and 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).

12. Financial assets and liabilities at fair value through profit or loss

	December 31, 2017	December 31, 2016
Financial assets at fair value through profit or loss		
Derivative financial assets		
Foreign currency forward contracts	1,410	7,657
Currency swap contracts	175	-
Financial assets at fair value through profit or loss	**1,585**	**7,657**

	December 31, 2017	December 31, 2016
Financial liabilities at fair value through profit or loss		
Derivative financial liabilities		
Foreign currency forward contracts	55	-
Currency swap contracts	536	-
Financial liabilities at fair value through profit or loss	**591**	**-**
Net derivative financial instruments	**994**	**7,657**

Financial assets and liabilities at fair value through profit or loss comprise foreign currency contracts.

(in thousands of Georgian Lari)

Currency Swaps

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, 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.

Foreign Currency Forward Contracts

Forwards are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts.

In a foreign currency forwards, the Company pays a specified amount in one currency and receives a specified amount in another currency. Currency forwards are gross-settled.

The table below summarizes the undiscounted contractual amounts outstanding at 31 December 2017 and 2016 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	
	December 31, 2017	**December 31, 2016**
Sell USD buy GEL		
Less than 3 months	32,837	14,399
Between 3 and 12 months	42,253	43,302
	75,090	**57,701**
Sell EUR buy GEL		
Between 3 and 12 months	-	4,191
	-	**4,191**
Sell USD buy EUR		
Between 3 and 12 months	**-**	**2,382**

(in thousands of Georgian Lari)

13. Loans to customers

	December 31, 2017	December 31, 2016
Principal	199,467	145,996
Accrued interest	3,969	3,020
Less: expected credit losses	(5,391)	(3,506)
Total loans to customers	**198,045**	**145,510**
Analysis by sector:		
Agriculture	60,970	43,296
Service	55,885	40,172
Trade	34,562	27,579
Consumer	33,730	24,677
Pawn shop	10,085	7,786
Manufacturing	8,204	5,506
Total loans to retail customers	**203,436**	**149,016**
Gross loans to customers		
Less: expected credit losses	(5,391)	(3,506)
Net loans to customers	**198,045**	**145,510**

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).

The following table provides information by types of loan products as at December 31, 2017:

	Gross carrying amount	Loss allowance	Carrying amount
Loans to retail customers:			
Agriculture	60,970	(2,284)	58,686
Service	55,885	(1,232)	54,653
Trade	34,562	(951)	33,611
Consumer	33,730	(679)	33,051
Pawn shop	10,085	(44)	10,041
Manufacturing	8,204	(201)	8,003
Total loans to customers	**203,436**	**(5,391)**	**198,045**

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

	Gross carrying amount	Loss allowance	Carrying amount
Loans to retail customers:			
Agriculture	43,296	(1,676)	41,620
Service	40,172	(717)	39,455
Trade	27,579	(588)	26,991
Consumer	24,677	(359)	24,318
Pawn shop	7,786	(28)	7,758
Manufacture	5,506	(138)	5,368
Total loans to customers	**149,016**	**(3,506)**	**145,510**

(in thousands of Georgian Lari)

Movements in the loan impairment allowance for the year ended December 31, 2017 are as follows:

	2017			
	Stage 1 12 month ECL	**Stage 2** Lifetime ECL - not credit-impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	1,174	1,808	524	3,506
New loans originated	2,940	-	-	2,940
Transfer to 12-month ECL	53	(53)	-	-
Transfer to lifetime ECL not credit-impaired	(1,489)	1,494	(5)	-
Transfer to lifetime ECL credit-impaired	(963)	(932)	1,895	-
Repaid loans	(636)	(661)	(57)	(1,354)
Written off for the year	(64)	(68)	(2,593)	(2,725)
Recoveries of previously written off	55	13	839	907
Changes due to change in credit-risk	1,017	226	883	2,126
Foreign exchange gain	(5)	(1)	(3)	(9)
Balance at the end of the year	**2,082**	**1,826**	**1,483**	**5,391**

Respective movements in the gross carrying amounts of loans to customers for the year ended December 31, 2017 are as follows:

	2017			
	Stage 1 12 month ECL	**Stage 2** Lifetime ECL - not credit-impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	121,725	26,279	1,012	149,016
New loans originated	167,003	-	-	167,003
Transfer to 12-month ECL	4,449	(4,148)	(301)	-
Transfer to lifetime ECL not credit-impaired	(34,560)	34,591	(31)	-
Transfer to lifetime ECL credit-impaired	(3,148)	(2,244)	5,392	-
Repaid loans	(91,409)	(16,096)	(1,826)	(109,331)
Written off for the year	(64)	(68)	(2,593)	(2,725)
Recoveries of previously written off	55	13	839	907
Foreign exchange loss	(1,142)	(282)	(10)	(1,434)
Balance at the end of the year	**162,909**	**38,045**	**2,482**	**203,436**

Movements in the loan impairment allowance for the year ended December 31, 2016 are as follows:

	2016			
	Stage 1 12 month ECL	**Stage 2** Lifetime ECL - not credit-impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	686	1,263	349	2,298
New loans originated	2,147	-	-	2,147
Transfer to 12-month ECL	13	(13)	-	-
Transfer to lifetime ECL not credit-impaired	(1,295)	1,296	(1)	-
Transfer to lifetime ECL credit-impaired	(393)	(360)	753	-
Repaid loans	(389)	(480)	(39)	(908)
Written off for the year	(70)	(48)	(2,305)	(2,423)
Recoveries of previously written off	62	7	476	545
Changes due to change in credit-risk	361	67	1,268	1,696
Foreign exchange loss	52	76	23	151
Balance at the end of the year	**1,174**	**1,808**	**524**	**3,506**

(in thousands of Georgian Lari)

Respective movements in the gross carrying amounts of loans to customers for the year ended December 31, 2016 are as follows:

	2016			
	Stage 1 12 month ECL	**Stage 2** Lifetime ECL - not credit-impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	84,930	21,952	750	107,632
New loans originated	118,791	-	-	118,791
Transfer to 12-month ECL	856	(731)	(125)	-
Transfer to lifetime ECL not credit-impaired	(18,760)	18,765	(5)	-
Transfer to lifetime ECL credit-impaired	(1,620)	(1,171)	2,791	-
Repaid loans	(65,862)	(13,372)	(600)	(79,834)
Written off for the year	(70)	(48)	(2,305)	(2,423)
Recoveries of previously written off	62	7	476	545
Foreign exchange gain	3,398	877	30	4,305
Balance at the end of the year	**121,725**	**26,279**	**1,012**	**149,016**

14. Property and equipment

	Buildings	Vehicles	Furniture	IT equipment	Leasehold improve-ments	Other	Total
Cost							
at January 1, 2017	105	349	652	1,628	3,725	2,406	8,865
Additions	-	338	196	469	913	521	2,437
Disposals	-	(37)	-	(25)	(147)	(3)	(212)
at December 31, 2017	**105**	**650**	**848**	**2,072**	**4,491**	**2,924**	**11,090**
Accumulated depreciation							
at January 1, 2017	(32)	(98)	(361)	(892)	(1,577)	(1,343)	(4,303)
Depreciation for the year	(3)	(101)	(121)	(247)	(728)	(422)	(1,622)
Disposals	-	7	-	20	115	2	144
at December 31, 2017	**(35)**	**(192)**	**(482)**	**(1,119)**	**(2,190)**	**(1,763)**	**(5,781)**
Carrying amount							
At December 31, 2017	**70**	**458**	**366**	**953**	**2,301**	**1,161**	**5,309**

	Buildings	Vehicles	Furniture	IT equipment	Leasehold improve-ments	Other	Total
Cost							
at January 1, 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)
at December 31, 2016	**105**	**349**	**652**	**1,628**	**3,725**	**2,406**	**8,865**
Accumulated depreciation							
at January 1, 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
at December 31, 2016	**(32)**	**(98)**	**(361)**	**(892)**	**(1,577)**	**(1,343)**	**(4,303)**
Carrying amount							
At January 1, 2016	66	167	245	647	1,647	766	3,538
At 31 December 2016	**73**	**251**	**291**	**736**	**2,148**	**1,063**	**4,562**

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 the year ended December 31, 2017 and 2016.

(in thousands of Georgian Lari)

15. Intangible assets

	Intangible assets
Cost	
at 1 January 2016	**1,701**
Additions	237
at December 31, 2016	**1,938**
Additions	432
at December 31, 2017	**2,370**
Accumulated amortization	
at January 1, 2016	(502)
Amortization for the year	(246)
at December 31, 2016	**(748)**
Amortization for the year	(297)
at December 31, 2017	**(1,045)**
Carrying amounts	
At December 31, 2016	**1,190**
At December 31, 2017	**1,325**

Intangible assets include software and licenses.

16. Other assets

	December 31, 2017	December 31, 2016
Other receivables	1,470	999
Receivables from personnel	-	3
Total other financial assets	**1,470**	**1,002**
Repossessed assets	643	599
Prepayments	1,502	667
Total other non-financial assets	**2,145**	**1,266**
Total other assets	**3,615**	**2,268**

Due to short-term nature of other receivables no ECL loss allowance is recognised as at December 31, 2017 and 2016. Other receivables include money transfer receivables from Paybox Machine Operators that are settled shortly after the reporting date.

17. Borrowed funds

This note provides information about the contractual terms of interest-bearing loans and borrowings which are measured at amortized cost. For more information about exposure to interest rate, foreign currency and liquidity risks, see Note 26.

	December 31, 2017	December 31, 2016
Loans from financial institutions	163,346	129,769
Subordinated debt	4,354	4,373
	167,700	**132,142**

	December 31, 2017	December 31, 2016
Principal	164,693	129,787
Interest accrued	3,007	2,355
	167,700	**132,142**

(in thousands of Georgian Lari)

The Company's borrowed funds short-term and long-term classification is as following:

	December 31, 2017	December 31, 2016
Non-current liabilities		
Borrowed funds	83,736	60,635
Current liabilities		
Borrowed funds	83,964	71,507
Total borrowed funds	**167,700**	**132,142**

Subordinated debt

As at 31 December 2017 and 2016, subordinated debt is unsecured loan received from an international financial organization, KfW maturing in 2019 amounting to GEL 4,354 thousand and GEL 4,373 thousand, respectively with an annual interest rate of 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.

Terms and debt repayments

Terms and conditions of outstanding borrowed funds are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2017 Carrying Amount	December 31, 2016 Carrying Amount
Unsecured loans from financial institutions	USD	5.77% - 8.48%	2018 – 2021	102,568	100,780
Unsecured loans from financial institutions	GEL	9% - 14.75%	2018 – 2024	59,409	24,078
Unsecured loans from financial institutions	EUR	6.5%-8%	2018	1,369	2,911
Unsecured subordinated debt	GEL	11%	2019	4,354	4,373
Total interest bearing liabilities				**167,700**	**132,142**

Reconciliation of changes arising from financing activities

	January 1, 2017	Receipt of loans during the year 2017	Repayment of loans during the year 2017	Interest accrual during the year 2017	Interest paid during the year 2017	Foreign exchange gain during the year 2017	December 31, 2017
Borrowed funds	132,142	118,487	(81,371)	13,745	(13,093)	(2,210)	**167,700**

Unused credit line facilities

On 7 April 2017 the Company signed a credit line agreement with JSC TBC Bank with an available facility of GEL 5,000 thousand expiring in 2018.

On 12 April 2017 the Company signed a credit line agreement with JSC Bank of Georgia with an available facility of EUR 500 thousand expiring in 2018.

On 18 May 2017 the Company signed a credit line agreement with JSC TBC Bank with an available facility of GEL 5,000 thousand expiring in 2018.

(in thousands of Georgian Lari)

On 5 June 2017 the Company signed a loan agreement with JSC Bank of Georgia with an available facility of USD 2,000 thousand expiring in 2018.

On 30 November 2017 the Company signed a credit line agreement with JSC Pasha Bank Georgia with an available facility of EUR 250 thousand expiring in 2018.

Covenant requirements

The Company is obligated to comply with financial covenants in relation to borrowed funds disclosed above. These covenants include stipulated ratios, as well as leverage, liquidity, profitability and risk coverage ratios.

As at December 31, 2017 the Company breached Solvency ratio set under the lending arrangement with Netherlands Development Finance Company.

According to IAS 1 "Presentation of Financial Statements" the management classified borrowed funds from Netherlands Development Finance Company as current liabilities in the amount of GEL 24,445,842 Liability is also presented up to 1-month maturity category for liquidity risk management disclosure purposes as at December 31, 2017 in Note 26.

The Company was not in breach of any of the covenants as at December 31, 2016.

These liabilities are measured at amortised cost.

18. Debt securities issued

This note provides information about the contractual terms of debt securities issued which are measured at amortized cost. For more information about exposure to interest rate, foreign currency and liquidity risks, see Note 26.

	December 31, 2017	**December 31, 2016**
Principal	9,871	-
Interest accrued	9	-
	9,880	**-**

The Company's debt securities issued short-term and long-term classification is as following:

	December 31, 2017	**December 31, 2016**
Non-current liabilities		
Debt securities issued	9,871	-
Current liabilities		
Debt securities issued	9	-
Total loans and borrowings	**9,880**	**-**

Corporate bond

Debt securities issued includes Corporate Bond. On December 28, 2017 the Company issued corporate bond with a face value of GEL 10 million maturing in December 2019. The bond bear a contractual rate of interest of 4.5% over the National Bank of Georgia's refinancing rate per annum on the notional amount.

(in thousands of Georgian Lari)

Terms and debt repayment

Terms and conditions of outstanding debt securities are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2017 Carrying Amount	December 31, 2016 Carrying Amount
Debt securities issued	GEL	4.5%+NBG refinancing rate	2019	9,880	-
Total interest bearing liabilities				**9,880**	**-**

Reconciliation of changes arising from financing activities

	January 1, 2017	Receipt of loans during the year 2017	Repayment of loans during the year 2017	Interest accrual during the year 2017	Interest paid during the year 2017	Foreign exchange gain during the year 2017	December 31, 2017
Debt securities issued	-	9,871	-	9	-	-	**9,880**

Corporate bond is measured at amortised cost.

19. Other liabilities

	December 31, 2017	December 31, 2016
Other payables	476	263
Total other financial liabilities	**476**	**263**
Accruals for employee compensation*	847	573
Taxes other than on income	11	165
Other non-financial liabilities	35	-
Total other non-financial liabilities	**893**	**738**
Total other liabilities	**1,369**	**1,001**

Accruals for employee compensation includes amount payable to employees in respect of the management incentive plan, which was settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment.

The details of management incentive plan is provided in Note 8.

20. Share capital and reserves

Share capital

Share capital as at December 31, 2017:

Shareholder	Number of shares	Common/ non-redeemable preference	Share %	Voting rights	Capital GEL
Fund Crystal	1,450,192	Common	47.52%	47.52%	1,450,192
AGRIF COÖPERATIEF U.A.	1,136,157	Common	37.23%	37.23%	1,136,157
DWM Funds S.C.A-SICAV SIF	378,157	Common	12.41%	12.41%	378,719
Management of the Company	86,817	Common	2.84%	2.84%	86,817
	3,051,885		**100.00%**	**100.00%**	**3,051,885**

(in thousands of Georgian Lari)

Share capital as at December 31, 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**

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.

On May 20, 2016 Supervisory Board approved to issue 45,023 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 17,445 ordinary shares for fulfilment of the individual and discretionary targets in the scope of Management Incentive Plan for 2015).

Issued in this period were also 13,902 ordinary shares for the fulfilment of Company wide targets and individual and discretionary targets in the scope of Management Incentive Plan for 2014. The decision for the latter was made by the Supervisory Board on December 4, 2015.

In addition, on August 9, 2017 Supervisory Board approved to issue 27,892 ordinary shares to the Management of the Company (15,629 ordinary shares to be settled as a share-based payments for meeting the Company wide targets and 12,263 ordinary shares for fulfilment of the individual and discretionary targets in the scope of Management Incentive Plan for 2016).

Share based payment reserve

During the years ended December 31, 2017 and 2016 increase in share based payment reserve was due to equity settled share-based payments of GEL 68 thousand and GEL 362 thousand. Please refer to Note 8 for details.

During the year ended December 31, 2017, 27,892 shares issued in the scope of Management Incentive Plan of 2016 were registered, thus resulted in decrease in share based payment reserve and increase in the share capital.

During the year ended December 31, 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.

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 June 20, 2017 and May 20, 2016, respectively dividends of GEL 1,000 thousand and GEL 374 thousand, were declared and paid.

(in thousands of Georgian Lari)

21. 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:

	December 31, 2017	December 31, 2016
Less than 1 year	**399**	**409**

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.

22. Contingencies

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.

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 financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Operating environment

Emerging markets such as Georgia are subject to different risks than more developed markets; these include economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to evolve rapidly with tax and regulatory frameworks subject to varying interpretations. The future direction of Georgia’s economy is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

For the last two years Georgia has experienced a number of legislative changes, which have been largely related to Georgia’s accession plan to the European Union. Whilst the legislative changes implemented during 2016 and 2017 paved the way, more can be expected as Georgia’s action plan for achieving accession to the European Union continues to develop.

(in thousands of Georgian Lari)

23. Related party transactions

Control relationships

The Company’s major shareholder is Crystal Fund with 47.52% shareholding (See Note 1).

In 2017 the Company’s parent company and ultimate controlling party was Crystal Fund.

Transactions with members of the Supervisory and Executive Boards

Total remuneration and management consulting fees included in personnel expenses for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Salaries and bonuses	729	442
Share based payment transaction	194	719
Profit sharing plan	123	233
Consulting fees	16	327
	1,062	**1,721**

Total remuneration and management consulting fees payables included in other liabilities as at December 31, 2017 and 2016 is as follows:

	December 31, 2017	December 31, 2016
Share based payment transaction	194	719
Profit sharing plan	123	233
	317	**952**

Other related party transactions

	2017	2016	December 31, 2017	December 31, 2016
Other				
JSC Mobile Finance Services - Georgia*	141	84	53	84
	141	**84**	**53**	**84**

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

24. Fair value of financial instruments

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 7 "Financial Instruments: Disclosures". IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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.

Financial assets and liabilities for which fair value approximates carrying value

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

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

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

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

Borrowed funds and debt securities issued – The fair values of subordinated debt and debt securities issued is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using current interest rates of new instruments. For the borrowings received at variable rates management believes that carrying rate may be assumed to be market interest rate.

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

(in thousands of Georgian Lari)

	Fair value hierarchy	December 31, 2017		December 31, 2016	
		Carrying value	Fair value	Carrying value	Fair value
Loans to customers	Level 3	198,045	201,893	145,510	148,380
Borrowed funds	Level 3	167,700	166,448	132,142	129,560
Debt securities issued	Level 3	9,880	9,880	-	-

Fair value of the Company's financial assets and financial liabilities measured at fair value on a recurring basis

Derivative financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Derivative financial instruments	Fair value as at December 31, 2017	Fair value as at December 31, 2016	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss	1,585	7,657	Level 2	Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates.	N/A	N/A
Financial liabilities at fair value through profit or loss	591	-	Level 2			

The Company uses widely recognised valuation models for determining the fair value of derivative financial instruments, like foreign exchange forward contracts and currency swaps that use only observable market data and require little management judgment and estimation.

25. 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. See Note 17 for the details of compliance with covenants.

26. Risk management policies

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.

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.

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.

As at December 31, 2017 and 2016, the Company has no debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

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 have awarded of grades D and D1 due to past arrears but have no delinquency any more, R1 (see the rule below) and the loans, which have been transferred to grade C2 by the Risk Department in accordance with the special rules given below (scores do not apply here).

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 of parallel loans, the following rationale applies:

- If a client has at least one delinquent loan, all of the loans of the client will fall into the grade, having the largest ECL rate out of the existing loans.
- If a client has at least one restructured loan, all the loans of the client should be included in the restructuring grade. Restructuring takes over delinquency. Therefore, if a client has 1 restructured loan and 1 – delinquent, both of them will be included in the restructuring grade.
- If a client has parallel loans with none of them being delinquent, restructured or included in C1, C2 categories, all of them should be awarded the grade, which has been assigned to the loan most recently disbursed. For instance, if a client had one loan in grade A, disbursed in 2015 and he takes another loan in 2018 under grade B, both loans will be included in grade B, as this is the grade of the most recently disbursed loan.
- If a client has parallel loans with none of them being delinquent or restructured and meantime, with one of them being in grade C1, C1 loan should also be awarded the grade, which has been assigned to the loan most recently disbursed (except of this loan).

- If a client has parallel loans with none of them being delinquent or restructured and meantime, with one of them being in grade C2, all the loans of the client should be awarded C2 category.

If the level of risk substantially increases for A, B, C, C1 grade loans, that is, if for the moment of reporting the probability of default 1,5 times exceeds the rate observed at the time of disbursement, the loans will be transferred to C2 grade.
Probability of default is checked once a year.

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 based on risk indicator;
- A client, who has been included in the watch list, which actions are suspicious, brings suspicious clients, there are reasonable grounds to suspect that the client is related to other clients. Suspicious activities 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.

The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

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;
- Monetary policy interest rate;
- Nominal effective exchange rate.

(in thousands of Georgian Lari)

The table below summarizes the principal macroeconomic indicators included in the economic scenarios used at December 31, 2017 for the years 2018 to 2020, for Georgia:

	2018	**2019**	**2020**
GDP Growth			
Base scenario	4.5	4.8	5.0
Upside scenario	5.5	6.0	5.7
Downside scenario	3.0	2.0	3.0
Inflation rate			
Base scenario	3.5	3.0	3.0
Upside scenario	2.5	2.5	2.7
Downside scenario	4.5	4.3	3.8
Monetary policy interest rate			
Base scenario	7.25	6.5	6.0
Upside scenario	6.0	5.5	5.0
Downside scenario	8.0	7.5	7.0
Nominal effective exchange rate			
Base scenario	107	108	109
Upside scenario	110	112	113
Downside scenario	101	98	99

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 3 years. Based on this analysis, the Company identified portfolio default key relationship with Monetary Policy Interest Rate.

The Company has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by 20%. The table below outlines the total ECL per portfolio as at December 31, 2017, if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if each of the key assumptions used change by plus or minus 20%. The changes are applied in isolation for illustrative purposes, and are applied to each probability weighted scenarios used to develop the estimate of expected credit losses. In reality there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

	Average PD	**Average LGD**	**ECL**
Monetary policy interest rate			
As expected	4.284%	70%	(5,391)
+10%	4.289%	70%	(5,393)
-10%	4.280%	70%	(5,383)

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.

(in thousands of Georgian Lari)

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 three-year average and then 1-year and lifetime PDs are derived by extrapolating using migration matrices.

As at December 31, 2017, 10% increase/(decrease) in average PD per each segment results in ECL increase/(decrease) by 7% that represents GEL 388/(388) thousand.

As at December 31, 2016, 10% increase/(decrease) in average PD per each segment results in ECL increase/(decrease) by 8% that represents GEL 295/(295) thousand.

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 cash recoveries only.

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

As at December 31, 2017, 10% increase/(decrease) in average LGD per each segment results in ECL increase/(decrease) by 10% that represents GEL 530/(530) thousand.

As at December 31, 2016, 10% increase/(decrease) in average LGD per each segment results in ECL increase/(decrease) by 10% that represents GEL 388/(388) thousand.

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.

Credit quality of loans to customers

The following tables provide information on the credit quality of loans to customers as at December 31, 2017:

	Gross loans	**Stage 1 12 month ECL**	**Stage 2 Lifetime ECL - not credit-impaired**	**Stage3 Lifetime ECL - credit-impaired**	**Total ECL**	**Net loans**	**ECL allowance to gross loans%**
Analysis by sector:							
Agriculture loans							
A	6,795	(67)	-	-	(67)	6,728	1%
B	15,739	(167)	-	-	(167)	15,572	1%
C	17,005	(197)	-	-	(197)	16,808	1%
C1	3,425	(31)	-	-	(31)	3,394	1%
C2	14,159	-	(375)	-	(375)	13,784	3%
C3	770	(137)	-	-	(137)	633	18%
D	517	-	(177)	-	(177)	340	34%
D1	305	-	(133)	-	(133)	172	44%
D2	418	-	-	(255)	(255)	163	61%
D3	130	-	-	(80)	(80)	50	62%
E	191	-	-	(146)	(146)	45	76%
R1	1,003	-	(242)	-	(242)	761	24%
R2	513	-	-	(277)	(277)	236	54%
Total agriculture loans	**60,970**	**(599)**	**(927)**	**(758)**	**(2,284)**	**58,686**	**4%**

(in thousands of Georgian Lari)

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans%
Service loans							
A	3,661	(36)	-	-	(36)	3,625	1%
B	14,358	(153)	-	-	(153)	14,205	1%
C	31,277	(365)	-	-	(365)	30,912	1%
C1	1,124	(10)	-	-	(10)	1,114	1%
C2	3,998	-	(108)	-	(108)	3,890	3%
C3	265	(47)	-	-	(47)	218	18%
D	103	-	(37)	-	(37)	66	36%
D1	93	-	(42)	-	(42)	51	45%
D2	90	-	-	(58)	(58)	32	69%
D3	81	-	-	(50)	(50)	31	68%
E	79	-	-	(62)	(62)	17	80%
R1	470	-	(121)	-	(121)	349	26%
R2	286	-	-	(143)	(143)	143	52%
Total service loans	**55,885**	**(611)**	**(308)**	**(313)**	**(1,232)**	**54,653**	**2%**
Trade loans							
A	2,347	(23)	-	-	(23)	2,324	1%
B	9,408	(100)	-	-	(100)	9,308	1%
C	17,402	(203)	-	-	(203)	17,199	1%
C1	723	(7)	-	-	(7)	716	1%
C2	3,126	-	(84)	-	(84)	3,042	3%
C3	347	(63)	-	-	(63)	284	18%
D	90	-	(33)	-	(33)	57	37%
D1	98	-	(43)	-	(43)	55	44%
D2	81	-	-	(52)	(52)	29	64%
D3	65	-	-	(39)	(39)	26	60%
E	27	-	-	(23)	(23)	4	85%
R1	616	-	(155)	-	(155)	461	25%
R2	232	-	-	(126)	(126)	106	54%
Total trade loans	**34,562**	**(396)**	**(315)**	**(240)**	**(951)**	**33,611**	**3%**
Consumer loans							
A	4,913	(49)	-	-	(49)	4.864	1%
B	8,887	(95)	-	-	(95)	8,792	1%
C	14,578	(171)	-	-	(171)	14,407	1%
C1	2,245	(20)	-	-	(20)	2,225	1%
C2	2,304	-	(63)	-	(63)	2,241	3%
C3	209	(37)	-	-	(37)	172	18%
D	96	-	(35)	-	(35)	61	36%
D1	95	-	(43)	-	(43)	52	45%
D2	48	-	-	(29)	(29)	19	60%
D3	69	-	-	(40)	(40)	29	58%
E	5	-	-	(4)	(4)	1	80%
R1	203	-	(49)	-	(49)	154	24%
R2	78	-	-	(44)	(44)	35	56%
Total consumer loans	**33,730**	**(372)**	**(190)**	**(117)**	**(679)**	**33,051**	**2%**
Pawn shop loans							
P	10,085	-	(44)	-	(44)	10,041	0%
Total pawn shop loans	**10,085**	**-**	**(44)**	**-**	**(44)**	**10,041**	**2%**
Manufacture loans							
A	445	(4)	-	-	(4)	441	1%
B	1,268	(13)	-	-	(13)	1,255	1%
C	5,403	(63)	-	-	(63)	5,340	1%
C1	195	(2)	-	-	(2)	193	1%
C2	581	-	(15)	-	(15)	566	3%
C3	120	(22)	-	-	(22)	98	18%
D	15	-	(5)	-	(5)	10	33%
D1	15	-	(7)	-	(7)	8	47%
D2	7	-	-	(5)	(5)	2	71%
D3	4	-	-	(2)	(2)	2	50%
E	29	-	-	(24)	(24)	5	84%
R1	73	-	(15)	-	(15)	58	21%
R2	49	-	-	(24)	(24)	25	49%
Total service loans	**8,204**	**(104)**	**(42)**	**(55)**	**(201)**	**8,003**	**3%**
Total loans to customers	**203,436**	**(2,082)**	**(1,826)**	**(1,483)**	**(5,391)**	**198,045**	**3%**

(in thousands of Georgian Lari)

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans %
Analysis by sector:							
Agriculture loans							
Not overdue	58,569	(477)	(577)	(354)	(1,408)	57,161	2%
1 to 30 days overdue	818	(122)	(25)	(26)	(173)	646	21%
31 to 60 days overdue	711	-	(202)	(34)	(236)	475	33%
61 to 90 days overdue	359	-	(122)	(30)	(152)	206	42%
91 to 180 days overdue	513	-	(1)	(314)	(315)	198	61%
Over 180 days overdue	-	-	-	-	-	-	0%
Total agriculture loans	**60,970**	**(599)**	**(927)**	**(758)**	**(2,284)**	**58,686**	**4%**
Service loans							
Not overdue	55,271	(570)	(226)	(213)	(1,009)	54,262	2%
1 to 30 days overdue	273	(41)	(9)	(5)	(55)	218	20%
31 to 60 days overdue	108	-	(38)	(2)	(40)	68	37%
61 to 90 days overdue	96	-	(35)	(8)	(43)	53	45%
91 to 180 days overdue	137	-	-	(85)	(85)	52	62%
Over 180 days overdue	-	-	-	-	-	-	0%
Total service loans	**55,885**	**(611)**	**(308)**	**(313)**	**(1,232)**	**54,653**	**2%**
Trade loans							
Not overdue	33,817	(339)	(210)	(156)	(705)	33,112	2%
1 to 30 days overdue	395	(57)	(21)	(4)	(82)	313	21%
31 to 60 days overdue	128	-	(41)	(4)	(45)	83	35%
61 to 90 days overdue	104	-	(43)	(2)	(45)	59	43%
91 to 180 days overdue	118	-	-	(74)	(74)	44	63%
Over 180 days overdue	-	-	-	-	-	-	0%
Total trade loans	**34,562**	**(396)**	**(315)**	**(240)**	**(951)**	**33,611**	**3%**
Consumer loans							
Not overdue	33,189	(336)	(115)	(35)	(486)	32,703	1%
1 to 30 days overdue	228	(36)	(3)	(9)	(48)	180	21%
31 to 60 days overdue	120	-	(39)	(3)	(42)	78	35%
61 to 90 days overdue	74	-	(33)	-	(33)	41	45%
91 to 180 days overdue	119	-	-	(70)	(70)	49	59%
Over 180 days overdue	-	-	-	-	-	-	0%
Total consumer loans	**33,730**	**(372)**	**(190)**	**(117)**	**(679)**	**33,051**	**2%**
Pawn shop loans							
Not overdue	9,803	-	(43)	-	(43)	9,760	0%
1 to 30 days overdue	261	-	(1)	-	(1)	260	0%
31 to 60 days overdue	19	-	-	-	-	19	0%
61 to 90 days overdue	1	-	-	-	-	1	0%
91 to 180 days overdue	1	-	-	-	-	1	0%
Over 180 days overdue	-	-	-	-	-	-	0%
Total pawn shop loans	**10,085**	**-**	**(44)**	**-**	**(44)**	**10,041**	**0%**
Manufacture loans							
Not overdue	8,043	(84)	(30)	(42)	(156)	7,887	2%
1 to 30 days overdue	110	(20)	-	-	(20)	90	18%
31 to 60 days overdue	15	-	(5)	-	(5)	10	33%
61 to 90 days overdue	18	-	(7)	(2)	(9)	9	50%
91 to 180 days overdue	18	-	-	(11)	(11)	7	61%
Over 180 days overdue	-	-	-	-	-	-	0%
Total manufacture loans	**8,204**	**(104)**	**(42)**	**(55)**	**(201)**	**8,003**	**3%**
Total loans to customers	**203,436**	**(2,082)**	**(1,826)**	**(1,483)**	**(5,391)**	**198,045**	**3%**

(in thousands of Georgian Lari)

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

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans%
Analysis by sector:							
Agriculture loans							
A	4,331	(32)	-	-	(32)	4,299	1%
B	10,305	(85)	-	-	(85)	10,220	1%
C	10,290	(91)	-	-	(91)	10,199	1%
C1	2,526	(16)	-	-	(16)	2,510	1%
C2	13,281	-	(716)	-	(716)	12,565	5%
C3	450	(60)	-	-	(60)	390	13%
D	187	-	(50)	-	(50)	137	27%
D1	342	-	(110)	-	(110)	232	32%
D2	235	-	-	(119)	(119)	116	51%
D3	107	-	-	(53)	(53)	54	50%
E	8	-	-	(8)	(8)	-	100%
R1	1,199	-	(319)	-	(319)	880	27%
R2	35	-	-	(17)	(17)	18	49%
Total agriculture loans	**43,296**	**(284)**	**(1,195)**	**(197)**	**(1,676)**	**41,620**	**4%**
Service loans							
A	2,990	(22)	-	-	(22)	2,968	1%
B	11,857	(99)	-	-	(99)	11,758	1%
C	21,650	(193)	-	-	(193)	21,457	1%
C1	1,932	(12)	-	-	(12)	1,920	1%
C2	432	-	(23)	-	(23)	409	55
C3	251	(34)	-	-	(34)	217	14%
D	31	-	(9)	-	(9)	22	29%
D1	37	-	(13)	-	(13)	24	35%
D2	97	-	-	(53)	(53)	44	55%
D3	90	-	-	(46)	(46)	44	51%
E	-	-	-	-	-	-	0%
R1	783	-	(202)	-	(202)	581	26%
R2	22	-	-	(11)	(11)	11	50%
Total service loans	**40,172**	**(360)**	**(247)**	**(110)**	**(717)**	**39,455**	**2%**
Trade loans							
A	1,785	(13)	-	-	(13)	1,772	1%
B	8,521	(71)	-	-	(71)	8,450	1%
C	14,146	(126)	-	-	(126)	14,020	1%
C1	1,224	(80	-	-	(8)	1,216	1%
C2	764	-	(41)	-	(41)	723	5%
C3	334	(45)	-	-	(45)	289	13%
D	50	-	(14)	-	(14)	36	28%
D1	38	-	(14)	-	(14)	(24)	37%
D2	79	-	-	(44)	(44)	35	56%
D3	61	-	-	(32)	(32)	29	52%
E	-	-	-	-	-	-	0%
R1	472	-	(131)	-	(131)	341	28%
R2	105	-	-	(49)	(49)	56	47%
Total trade loans	**27,579**	**(263)**	**(200)**	**(125)**	**(588)**	**26,991**	**2%**
Consumer loans							
A	3,215	(24)	-	-	(24)	3,191	1%
B	6,767	(56)	-	-	(56)	6,711	1%
C	11,058	(99)	-	-	(99)	10,959	1%
C1	2,779	(18)	-	-	(18)	2,761	1%
C2	359	-	(20)	-	(20)	339	6%
C3	92	(12)	-	-	(12)	80	13%
D	19	-	(5)	-	(5)	14	265
D1	26	-	(9)	-	(9)	17	35%
D2	53	-	-	(29)	(29)	24	55%
D3	33	-	-	(16)	(16)	17	48%
E	-	-	-	-	-	-	0%
R1	267	-	(67)	-	(67)	200	25%
R2	9	-	-	(4)	(4)	5	44%
Total consumer loans	**24,677**	**(209)**	**(101)**	**(49)**	**(359)**	**24,318**	**1%**
Pawn shop loans							
P	7,786	-	(28)	-	(28)	7,758	0%
Total pawn shop loans	**7,786**	**-**	**(28)**	**-**	**(28)**	**7,758**	**0%**

(in thousands of Georgian Lari)

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans%
Manufacture loans							
A	306	(2)	-	-	(2)	304	1%
B	871	(7)	-	-	(7)	864	1%
C	3,768	(34)	-	-	(34)	3,734	1%
C1	176	(1)	-	-	(1)	175	1%
C2	67	-	(4)	-	(4)	63	6%
C3	101	(14)	-	-	(14)	87	14%
D	1	-	-	-	-	-	0%
D1	3	-	(1)	-	(1)	2	33%
D2	37	-	-	(22)	(22)	15	59%
D3	33	-	-	(17)	(17)	16	52%
E	-	-	-	-	-	-	0%
R1	135	-	(32)	-	(32)	103	24%
R2	8	-	-	(4)	(4)	4	50%
Total service loans	**5,506**	**(58)**	**(37)**	**(43)**	**(138)**	**5,368**	**3%**
Total loans to customers	**149,016**	**(1,174)**	**(1,808)**	**(524)**	**(3,506)**	**145,510**	**2%**

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans %
Analysis by sector:							
Agriculture loans							
Not overdue	41,820	(224)	(1,001)	(19)	(1,244)	40,576	3%
1 to 30 days overdue	488	(60)	(7)	(3)	(70)	418	14%
31 to 60 days overdue	239	-	(60)	(7)	(67)	172	28%
61 to 90 days overdue	433	-	(127)	(13)	(140)	293	32%
91 to 180 days overdue	316	-	-	(155)	(155)	161	495
Over 180 days overdue	-	-	-	-	-	-	0%
Total agriculture loans	**43,296**	**(284)**	**(1,195)**	**(197)**	**(1,676)**	**41,620**	**4%**
Service loans							
Not overdue	39,517	(326)	(187)	(18)	(531)	38,986	1%
1 to 30 days overdue	341	(34)	(22)	-	(56)	285	16%
31 to 60 days overdue	66	-	(15)	(2)	(17)	49	26%
61 to 90 days overdue	107	-	(23)	(17)	(40)	67	37%
91 to 180 days overdue	141	-	-	(73)	(73)	68	52%
Over 180 days overdue	-	-	-	-	-	-	0%
Total service loans	**40,172**	**(360)**	**(247)**	**(110)**	**(717)**	**39,455**	**2%**
Trade loans							
Not overdue	26,865	(218)	(154)	(11)	(383)	26,482	1%
1 to 30 days overdue	367	(45)	(4)	(10)	(59)	308	16%
31 to 60 days overdue	102	-	(26)	(7)	(33)	69	32%
61 to 90 days overdue	57	-	(16)	(5)	(21)	36	37%
91 to 180 days overdue	188	-	-	(92)	(92)	96	49%
Over 180 days overdue	-	-	-	-	-	-	0%
Total trade loans	**27,579**	**(263)**	**(200)**	**(125)**	**(588)**	**26,991**	**2%**
Consumer loans							
Not overdue	24,434	(197)	(82)	(4)	(283)	24,151	1%
1 to 30 days overdue	103	(12)	(2)	(2)	(16)	87	16%
31 to 60 days overdue	37	-	(8)	(4)	(12)	25	32%
61 to 90 days overdue	30	-	(9)	(2)	(11)	19	37%
91 to 180 days overdue	73	-	-	(37)	(37)	36	51%
Over 180 days overdue	-	-	-	-	-	-	0%
Total consumer loans	**24,677**	**(209)**	**(101)**	**(49)**	**(359)**	**24,318**	**1%**
Pawn shop loans							
Not overdue	7,530	-	(27)	-	(27)	7,503	0%
1 to 30 days overdue	250	-	(1)	-	(1)	249	0%
31 to 60 days overdue	6	-	-	-	-	6	0%
61 to 90 days overdue	-	-	-	-	-	-	0%
91 to 180 days overdue	-	-	-	-	-	-	0%
Over 180 days overdue	-	-	-	-	-	-	0%
Total pawn shop loans	**7,786**	**-**	**(28)**	**-**	**(28)**	**7,758**	**0%**

(in thousands of Georgian Lari)

Manufacture loans							
Not overdue	5,294	(44)	(29)	-	(73)	5,221	1%
1 to 30 days overdue	166	(14)	(7)	(20)	(41)	125	25%
31 to 60 days overdue	1	-	-	-	-	1	0%
61 to 90 days overdue	4	-	(1)	(1)	(2)	2	50%
91 to 180 days overdue	41	-	-	(22)	(22)	19	54%
Over 180 days overdue	-	-	-	-	-	-	0%
Total manufacture loans	**5,506**	**(58)**	**(37)**	**(43)**	**(138)**	**5,368)**	**3%**
Total loans to customers	**149,016**	**(1,174)**	**(1,808)**	**(524)**	**(3,506)**	**145,510**	**2%**

During the years ended December 31, 2017 and 2016, the Company modified the contractual cash flows on certain loans to customers. All such loans were transferred to at least Stage 2 with a loss allowance measured at an amount equal lifetime expected credit losses. Therefore, there are no loans with modified contractual cash flows transferred to Stage 1 from Stage 2 or Stage 3.

Analysis of collateral and other credit enhancements

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

	December 31, 2017	% of loan portfolio	December 31, 2016	% of loan portfolio
Loans with no collateral	117,423	59%	93,004	66%
Loans with collateral	80,622	41%	52,506	34%
Total	**198,045**	**100%**	**145,510**	**100%**

Type of collateral	December 31, 2017 Gross carrying amount	December 31, 2017 ECL	December 31, 2017 Carrying amount	December 31, 2017 Collateral Fair Value
Real estate	71,325	(2,081)	69,244	228,768
Precious metals	10,137	(44)	10,093	18,657
Movable property	1,317	(32)	1,285	4,032
Non-collateralized	120,657	(3,234)	117,423	-
Total	**203,436**	**(5,391)**	**198,045**	**251,457**

Type of collateral	December 31, 2016 Gross Carrying Amount	December 31, 2016 ECL	December 31, 2016 Carrying Amount	December 31, 2016 Collateral Fair Value
Real estate	45,587	(1,335)	44,252	154,088
Precious metals	7,802	(28)	7,774	15,439
Movable property	493	(13)	480	2,510
Non-collateralized	95,134	(2,130)	93,004	-
Total	**149,016**	**(3,506)**	**145,510**	**172,037**

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%, when referring to the collateral’s discounted value, i.e. the least value at which it is expected to be realized (Company’s conservative approach, whereby it reduces the collateral’s market value at a certain percentage applying professional judgement). Otherwise, if calculated using the market values, the ratio is a maximum of 100%, for the major part of the loan portfolio, as displayed below.

(in thousands of Georgian Lari)

LTV Ratio	December 31, 2017 Gross Carrying Amount	December 31, 2017 ECL	December 31, 2017 Carrying Amount
Less than 50%	146,715	(4,002)	142,713
51-70%	15,138	(463)	14,675
71-90%	17,542	(383)	17,159
91-100%	13,118	(237)	12,881
More than 100%	10,923	(306)	10,617
Total	**203,436**	**(5,391)**	**198,045**

LTV Ratio	December 31, 2016 Gross Carrying Amount	December 31, 2016 ECL	December 31, 2016 Carrying Amount
Less than 50%	116,762	(2,578)	114,184
51-70%	11,447	(313)	11,134
71-90%	10,254	(271)	9,983
91-100%	5,641	(158)	5,483
More than 100%	4,912	(186)	4,726
Total	**149,016**	**(3,506)**	**145,510**

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 December 31, 2017 and 2016, 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. Refer to Note 16.

Loan maturities

The maturity of the loan portfolio is presented in Note 26, which shows the remaining period from the reporting date to the contractual maturity of the loans.

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.

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.

(in thousands of Georgian Lari)

Interest rate gap analysis

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

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
December 31, 2017							
ASSETS							
Cash and cash equivalents	9,816	-	-	-	-	4,504	14,320
Loans to customers	34,986	22,607	49,139	91,252	61	-	198,045
Other financial assets	-	-	-	-	-	1,470	1,470
	44,802	**22,607**	**49,139**	**91,252**	**61**	**5,974**	**213,835**
LIABILITIES							
Borrowed funds	30,297	18,454	35,213	76,518	7,218	-	167,700
Debt securities issued	9	-	-	9,871	-	-	9,880
Other financial liabilities	-	-	-	-	-	476	476
	30,306	**18,454**	**35,213**	**86,389**	**7,218**	**476**	**178,056**
Interest sensitivity gap	**14,496**	**4,153**	**13,926**	**4,863**	**(7,157)**	**5,498**	**35,779**
Cumulative interest sensitivity gap	**14,496**	**18,649**	**32,575**	**37,438**	**30,281**	**35,779**	
December 31, 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
Other financial assets	-	-	-	-	-	1,002	1,002
	32,071	**18,396**	**37,887**	**60,182**	**-**	**8,331**	**156,867**
LIABILITIES							
Borrowed funds	11,140	20,698	39,669	60,635	-	-	132,142
Other financial liabilities	-	-	-	-	-	263	263
	11,140	**20,698**	**39,669**	**60,635**	**-**	**263**	**132,405**
Interest sensitivity gap	**20,931**	**(2,302)**	**(1,782)**	**(453)**	**-**	**8,068**	**24,462**
Cumulative interest sensitivity gap	**20,931**	**18,629**	**16,847**	**16,394**	**16,394**	**24,462**	

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2017 and 2016. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2017			**2016**		
	Average effective interest rate, %			**Average effective interest rate, %**		
	GEL	**USD**	**EUR**	**GEL**	**USD**	**EUR**
Interest bearing assets						
Loans to customers	33%	27%	-	37%	27%	-
Interest bearing liabilities						
Borrowed funds	12.5%	7.5%	7.2%	14%	8%	7%
Debt securities issued	12.32%	0%	0%	0%	0%	0%

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 2017 and 2016, is as follows:

(in thousands of Georgian Lari)

	2017	2016
100 bp parallel fall	(159)	(140)
100 bp parallel rise	159	140

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 12), 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 December 31, 2017:

	EUR	USD	Total
ASSETS			
Cash and cash equivalents	1,504	7,329	8,833
Loans to customers	-	19,895	19,895
Other financial assets	2	124	126
Total assets	**1,506**	**27,348**	**28,854**
LIABILITIES			
Borrowed funds	1,369	102,568	103,937
Other financial liabilities	5	30	35
Total liabilities	**1,374**	**102,598**	**103,972**
Net position	**132**	**(75,250)**	**(75,118)**
The effect of derivatives held for risk management	**-**	**75,090**	**75,090**
Net position after derivatives held for risk management purposes	**132**	**(160)**	**(28)**

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

	EUR	USD	Total
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			
Borrowed funds	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**

(in thousands of Georgian Lari)

The following significant exchange rates were applied during the year:

in GEL	**Average rate**		**Reporting date spot rate**	
	2017	**2016**	**2017**	**2016**
USD 1	2.5086	2.3667	2.5922	2.6468
EUR 1	2.8322	2.6171	3.1044	2.7940

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2017 and 2016, 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.

	2017	**2016**
10% appreciation of USD against GEL	(14)	(38)
10% appreciation of EUR against GEL	11	50

A strengthening of the GEL against the above currencies at December 31, 2017 and 2016 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.

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 December 31, 2017 is as follows:

(in thousands of Georgian Lari)

	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							
Borrowed funds	26,253	4,070	19,209	38,232	96,359	184,123	167,700
Debt securities issued	-	9	-	-	12,211	12,220	9,880
Other financial liabilities	350	17	-	3	106	476	476
Total financial liabilities	**26,603**	**4,096**	**19,209**	**38,235**	**108,676**	**196,819**	**178,056**

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

	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							
Borrowed funds	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 table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at December 31, 2017:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	14,320	-	-	-	-	-	-	14,320
Financial assets at fair value through profit or loss	-	175	1,410	-	-	-	-	1,585
Loans to customers	6,736	25,126	71,728	91,230	61	-	3,164	198,045
Property and equipment	-	-	-	-	-	5,309	-	5,309
Intangible assets	-	-	-	-	-	1,325	-	1,325
Deferred tax assets	-	-	-	-	-	1,954	-	1,954
Other assets	1,503	180	991	298	-	643	-	3,615
Total assets	**22,559**	**25,481**	**74,129**	**91,528**	**61**	**9,231**	**3,164**	**226,153**
LIABILITIES								
Financial liabilities at fair value through profit or loss	-	364	227	-	-	-	-	591
Borrowed funds	26,227	4,070	53,667	76,518	7,218	-	-	167,700
Debt securities issued	-	9	-	9,871	-	-	-	9,880
Current income tax liability	-	-	297	-	-	-	-	297
Other liabilities	947	18	298	106	-	-	-	1,369
Total liabilities	**27,174**	**4,461**	**54,489**	**86,495**	**7,218**	**-**	**-**	**179,837**
Net position	**(4,615)**	**21,020**	**19,640**	**5,033**	**(7,157)**	**9,231**	**3,164**	**46,316**

(in thousands of Georgian Lari)

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	10,355	-	-	-	-	-	-	10,355
Financial assets at fair value through profit or loss	-	1,592	6,065	-	-	-	-	7,657
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								
Borrowed funds	1,772	9,368	60,367	60,635	-	-	-	132,142
Current income 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**

27. Subsequent events

In January 2018 certain structural and management changes took place in the Company: a 100% subsidiary of JSC MFO Crystal – Crystal Group LLC was registered. The Chief Executive Officer of the Company Malkhaz Dzadzua left JSC MFO Crystal to become a Director of its Subsidiary, whereas the Chief Financial Officer David Bendeliani assumed the responsibilities instead.

In February 2018 the Company’s Board of Directors was joined by the fourth Director – Sergo Nozadze, responsible for Human Resources and Organizational Development.

In March 2018 the Company signed loan agreement with JSC Bank of Georgia amounting to GEL 4,900 thousand with the tenor of one year, at fixed interest rate.

In March 2018 the Company signed loan facility agreement with Societe De Promotion Et De Participation Pour La Cooperation Economique S.A. (Proparco) amounting to USD 7,000 thousand with the tenor of five years, at floating interest rate.

In April 2018 the Company signed promissory note agreement with responsAbility SICAV (Lux) amounting to USD 2,000 thousand with the tenor of three years, at fixed interest rate.

On 13 April, 2018, the Company received waiver letter from Netherlands Development Finance Company that waives the breach of covenant for the next 12 months.