JSC Microfinance Organization Credo

Financial statements

Year ended 31 December 2016
together with independent auditor's report

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Independent auditor's report

To the Shareholders and the Supervisory Board of JSC Microfinance Organization Credo

Opinion

We have audited the financial statements of JSC Microfinance Organization Credo (the Company) which comprise the statement of financial position as at 31 December 2016, and the statement of profit and 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 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Responsibilities of management 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.

The Audit Committee is 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 the Audit Committee 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.

Ruslan Khoroshvili
On behalf of EY Georgia LLC
28 April 2017

Statement of financial position

As at 31 December 2016

(Thousands of Georgian Lari)

	Note	*2016*	*2015*
Assets			
Cash and cash equivalents	5	67,815	44,102
Derivative financial assets	6	12,415	12,024
Loans to customers	7	443,429	405,875
Intangible assets	9	3,152	2,002
Property and equipment	8	7,155	7,050
Deferred income tax assets	10	2,547	484
Current income tax asset		–	139
Other financial assets	11	5,115	3,988
Other non-financial assets	12	2,362	2,183
Total assets		**543,990**	**477,847**
Liabilities			
Derivative financial liabilities	6	–	82
Current income tax liabilities		568	–
Promissory notes issued		578	–
Other liabilities	14	8,541	6,286
Loans from banks and other financial institutions	13	410,546	371,496
Subordinated debt	13	8,418	10,863
Total liabilities		**428,651**	**388,727**
Equity			
Share capital	15	4,400	4,400
Retained earnings		110,939	84,720
Total equity		**115,339**	**89,120**
Total liabilities and equity		**543,990**	**477,847**

Signed on behalf of the Management Board of the JSC Microfinance Organization Credo

Zaal Pirtskhelava Chief Executive Officer

David Natsvaladze Chief Financial Officer

28 April 2017

The accompanying notes on pages 5 to 31 are an integral part of these financial statements.

Statement of profit and loss and other comprehensive income

For the year ended 31 December 2016

(Thousands of Georgian Lari)

	Note	2016	2015
Interest income			
Loans to customers		125,224	108,170
Cash and cash equivalents		2,344	381
		127,568	108,551
Interest expense			
Loans from banks and other financial institutions		(30,464)	(23,896)
Subordinated loans		(893)	(893)
Promissory notes issued		(32)	–
		(31,389)	(24,789)
Net interest income		**96,179**	**83,762**
Impairment charge for loan losses	7	(9,689)	(6,332)
Net interest income after allowance for impairment		**86,490**	**77,430**
Fee and commission income	17	18,285	19,191
Fee and commission expense	18	(5,074)	(4,977)
Net fee and commission income		**13,211**	**14,214**
Net (losses)/gains from foreign currencies	19	(2,472)	1,477
Other operating income	20	1,198	151
Other operating expense		(149)	(117)
Net non-interest income		**11,788**	**15,725**
Personnel expenses	21	(46,522)	(41,601)
Depreciation and amortization	8,9	(3,276)	(2,394)
Other general administrative expenses	22	(18,501)	(17,302)
Non-interest expenses		**(68,299)**	**(61,297)**
Profit before income tax expense		**29,979**	**31,858**
Income tax expense	10	(3,760)	(5,683)
Profit for the period		**26,219**	**26,175**
Other comprehensive income		–	–
Total comprehensive income		**26,219**	**26,175**

The accompanying notes on pages 5 to 31 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2016

(Thousands of Georgian Lari)

	Share capital	*Retained earnings*	*Total equity*
31 December 2014	**4,365**	**65,939**	**70,304**
Profit and total comprehensive income for the period	**–**	**26,175**	**26,175**
Change in charter capital	35	(35)	**–**
Dividends	**–**	(7,359)	**(7,359)**
31 December 2015	**4,400**	**84,720**	**89,120**
Profit and total comprehensive income for the period	**–**	26,219	**26,219**
31 December 2016	**4,400**	**110,939**	**115,339**

The accompanying notes on pages 5 to 31 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2016

(Thousands of Georgian Lari)

	Note	*2016*	*2015*
Cash flows from operating activities			
Interest received		129,149	106,584
Interest paid		(30,252)	(25,469)
Fees and commissions received		17,908	18,382
Fees and commissions paid		(5,074)	(4,954)
Realized gains from dealing in foreign currencies		2,122	3,265
Other income received		715	137
Personnel expenses paid		(45,733)	(41,228)
Other operating expenses paid		(17,858)	(17,457)
Cash flows from operating activities before changes in operating assets and liabilities		**50,977**	**39,260**
Net (increase)/decrease in operating assets			
Derivative financial assets		439	(761)
Loans to customers		(33,090)	(62,089)
Other assets		(1,025)	(1,758)
Net increase in operating liabilities			
Other liabilities		1,022	1,228
Promissory notes issued		550	–
Net cash flows from (used in) operating activities before income tax		**18,873**	**(24,122)**
Income tax paid		(5,114)	(6,968)
Net cash from (used in) operating activities		**13,759**	**(31,092)**
Cash flows used in investing activities			
Purchase of property, equipment and intangible assets		(4,532)	(4,447)
Net cash used in investing activities		**(4,532)**	**(4,447)**
Cash flows from financing activities			
Proceeds from borrowings and subordinated loans		145,384	173,659
Repayment of borrowings and subordinated loans		(137,784)	(107,213)
Dividends paid		–	(7,359)
Net cash from financing activities		**7,600**	**59,087**
Net increase in cash and cash equivalents		**16,827**	**23,548**
Effect of exchange rates changes on cash and cash equivalents		6,886	4,407
Cash and cash equivalents, beginning	5	44,102	16,147
Cash and cash equivalents, ending	**5**	**67,815**	**44,102**

The accompanying notes on pages 5 to 31 are an integral part of these financial statements.

(thousands of Georgian Lari)

1. Principal activities

Organization and operations

Microfinance Organization Credo LLC (the "Company") was established in 2007 to provide sustainable lending services to those individual entrepreneurs who are not able to access credit facilities through the conventional banking system. The Company supports the development of the private economy of Georgia by providing credit and related services to micro, small and medium-sized entrepreneurs and companies. In 2016, the Company reorganized from a limited liability company (LLC) to a joint stock company (JSC).

Shareholders

Shareholding structure of the Company as at 31 December 2016 and 2015 was as follows:

Shareholder	***Ownership %***
Joint Stock Company Access Microfinance Holding AG	60.20%
Triodos SICAV II (Triodos Microfinance Fund)	9.90%
Triodos Custody B.V., Triodos Fair Share Fund	9.90%
ResponsAbility Participations AG	9.34%
ResponsAbility SICAV (Lux) − responsAbility SICAV (Lux) Microfinance Leaders Fund	1.87%
ResponsAbility Management Company S.A., responsAbility Global Microfinance Fund	8.79%

Ownership, voting and dividend rights among partners are allocated in proportion to their ordinary shares held in the Company.

As at 31 December 2016 and 2015 the Company's parent and ultimate controlling party with 60.2% of the voting rights is Joint Stock Company Access Microfinance Holding AG, Germany.

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 Management Board appointed by the Supervisory Board. The Company was registered as a microfinance organization by the National Bank of Georgia on 6 December 2007. The legal address of the Company is 9, Asatiani street, Tbilisi, Georgia.

Business environment

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

2. Basis of preparation

General

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

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. Derivative financial instruments have been measured at fair value.

Company's functional and presentation currency is the Georgian Lari (GEL). Financial information is presented in GEL rounded to the nearest thousands, unless otherwise indicated.

Reclassifications

Current income tax asset in amount of GEL 139 thousand was presented separately in the statement of financial position as at 31 December 2015 to conform to 2016 presentation.

(thousands of Georgian Lari)

3. Summary of accounting policies

Changes in accounting policies

No new or revised IFRS that became effective during the reporting period had any impact on the Company's financial position or performance.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, call deposits, unrestricted current accounts and short-term deposits held with banks, with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

Fair value measurement

The Company measures financial instruments, such as derivatives, at fair value at each balance sheet date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. Company determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Derivatives are included in the category "financial assets at fair value through profit or loss" and are classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

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

Management determines the appropriate classification of financial instruments at the time of the initial recognition. The Company classifies non-derivative financial assets into loans and receivables category, which consists of loans to customers and cash and cash equivalents. The Company classifies non-derivative financial liabilities into the other financial liabilities category. Other financial liabilities comprise loans and borrowings and other payables.

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Loans and receivables

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

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

Measurement of financial instruments at initial recognition

When financial instruments are recognized initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Company determines that the fair value at initial recognition differs from the transaction price, then:

- The 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, the Company recognizes the difference;
- In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Company recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Amortized cost

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

Fair value measurement principles

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

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

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

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

Gains and losses on subsequent measurement

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

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

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Derecognition

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

The Company writes off assets deemed to be uncollectible, usually after 180 days past due.

Derivative financial instruments

In the normal course of business, the Company enters into various derivative financial instruments including foreign currency forwards and cross currency swaps (back to back loans) in the foreign exchange and capital markets. The counterparties are mostly local banks.

The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss within net gains/(losses) from foreign currencies.

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

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Loans to customers

For amounts due from credit institutions and loans to customers, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the outstanding principal based on the original effective interest rate of the asset.

Loans together with the associated allowance are usually written off when the respective loan becomes overdue for more than 180 days.

If a future write-off is later recovered, the recovery is credited to the statement of profit or loss.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal credit grading system that considers past-due status.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Company either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Borrowings are included in Loans from banks and other financial institutions and Subordinated loans and represent amounts due to the local banks, foreign financial institutions and international financial institutions. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

If the Company purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in profit or loss.

Leases

Operating – Company as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other general administrative expenses.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Georgian tax code.

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the asset and liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (applicable to undistributed profits) that have been enacted or substantively enacted at the reporting date.

Property and equipment

Property and equipment is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20
Furniture, fixtures and equipment	2-5
IT and computer equipment	5
Motor vehicles	10

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other general administrative expenses, unless they qualify for capitalization.

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Intangible assets

Intangible assets include licenses, core banking software and other software. Licenses represent rights of usage of various software. Core banking software represents cost of accounting and loan portfolio management software. Other software includes internally developed software and other purchased software.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 2 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

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.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

For all financial instruments measured at amortized cost, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Fee and commission income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income from life insurance and annual service. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from separate transactions done by customer – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Foreign currency translation

The financial statements are presented in Georgian Lari, which is the Company's functional currency.

Transactions in foreign currencies are recorded in the foreign currency and same time in functional currency converted at the rate of transaction date exchange rate of National Bank of Georgia.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency exchange rate existing at the reporting date.

Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss within net gains/(losses) from foreign currencies.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the National Bank of Georgia exchange rate on the date of the transaction are included in Net gains/losses from foreign currencies.

The official National Bank of Georgia exchange rates at 31 December 2016 and 31 December 2015 were 2.6468 GEL and 2.3949 GEL to 1 USD, respectively.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Company will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities. The Company will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, to determine the impact of transition to IFRS 9.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Company does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases − IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Company does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Company does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Company is currently evaluating the impact.

(thousands of Georgian Lari)

4. Significant accounting judgments and estimates

Judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimation uncertainty

In the process of applying the Company's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Please refer to Note 24.

Allowance for loan impairment

The Company regularly reviews its loans and receivables to assess impairment. The Company uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data on similar borrowers.

Similarly, the Company estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Company uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances. Please refer to Note 7 for the amounts of the allowance for loan impairment recognized as at 31 December 2016.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2016	***2015***
Cash on hand	7,316	2,375
Current accounts with banks	23,497	41,727
Time deposits with credit institutions up to 90 days	37,002	–
Cash and cash equivalents	**67,815**	**44,102**

None of cash and cash equivalents are impaired or past due. Most of current accounts are placed with BB- rated banks as at 31 December 2016 and 2015. Time deposits comprise of deposits in USD placed with a local commercial bank with no international rating.

(thousands of Georgian Lari)

6. Derivative financial instruments

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

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

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2016			***2015***		
	Notional amount	***Fair values***		***Notional amount***	***Fair value***	
		Asset	***Liability***		***Asset***	***Liability***
Foreign currency contracts						
Cross-currency swaps	96,943	12,415	–	111,313	12,024	82
Total derivative assets/ liabilities		**12,415**	**–**		**12,024**	**82**

(thousands of Georgian Lari)

7. Loans to customers

Loans to customers' breakdown per components was as follows:

	2016	*2015*
Principal outstanding	468,674	423,948
Accrued interest	7,674	8,030
Repayments in excess of standard terms and undrawn amounts	(18,499)	(15,470)
Deferred upfront fees and transaction costs	(4,344)	(3,744)
Gross loans to customers	**453,505**	**412,764**
Less: allowance for impairment	(10,076)	(6,889)
Loans to customers	**443,429**	**405,875**

Allowance for impairment of loans to customers

Movements in impairment allowance for loans to customers for the year ended 31 December were as follows:

	2016	*2015*
1 January	**6,889**	**3,989**
Charge for the year − collective impairment	9,689	6,332
Recoveries of written-off loans	1,656	675
Amounts written off	(8,158)	(4,107)
31 December	**10,076**	**6,889**

Management estimates loan impairment for loans to customers based on its past historical loss experience. The objective evidence of impairment used by management in determining the impairment losses for loans to customers include overdue payments under the loan agreement, significant difficulties in the financial position of the borrower, deterioration in the business environment and negative changes in borrower's market.

Individually impaired loans

Maximum individual loan amount is limited by legislation to GEL 50. The Company does not treat any of its loans as individually significant and thus does not recognize any individual impairment.

Credit quality of the loan portfolio

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

	Gross loans	*Impairment allowance*	*Net loans*	*Impairment to gross loans %*
Neither past due nor impaired loans	443,239	(4,130)	439,109	0.9%
Impaired loans:				
- overdue less than 90 days	4,718	(2,075)	2,643	44.0%
- overdue more than 90 days and less than 1 year	5,548	(3,871)	1,677	69.8%
Total	**453,505**	**(10,076)**	**443,429**	2.2%

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

	Gross loans	*Impairment allowance*	*Net loans*	*Impairment to gross loans %*
Neither past due nor impaired loans	406,257	(3,765)	402,492	0.9%
Impaired loans:				
- overdue less than 90 days	2,653	(954)	1,699	36.0%
- overdue more than 90 days and less than 1 year	3,854	(2,170)	1,684	56.3%
Total	**412,764**	**(6,889)**	**405,875**	1.7%

The Company does not have an internal credit rating system to evaluate credit quality of past due but not impaired loans.

(thousands of Georgian Lari)

7. Loans to customers (continued)

Gross carrying value of renegotiated loans to customers that would have been otherwise considered past due or impaired comprised GEL 6,249 as at 31 December 2016 (2015: GEL 4,585).

Collateral and other credit enhancements

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

The loans with value of over USD 10 thousand are collateralized. The main types of collateral are land and other real estate, vehicles, gold.

As at 31 December 2016, gross carrying value of collateralized loans amounted GEL 81,417 (2015: 59,800) what is 18% (2015: 15%) of total loans to customers. This amount represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

All loans are covered by customer life insurance.

Industry and geographical analysis of the loan portfolio

Loans to customers were issued to customers located within Georgia who operate in the following economic sectors:

	2016	*2015*
Agriculture	226,754	218,669
Service	84,209	71,893
Consumer	73,419	59,278
Trade	69,123	62,924
	453,505	**412,764**
Loan loss allowance	(10,076)	(6,889)
Net loans to customers	**443,429**	**405,875**

8. Property and equipment

The movements in property and equipment were as follows in 2016:

	Land and buildings (incl. leasehold)	*Furniture, fixtures and equipment*	*Motor vehicles*	*IT and computer equipment*	*Total*
Cost					
1 January 2016	**929**	**5,212**	**2,269**	**3,661**	**12,071**
Additions	–	1,355	316	1,000	**2,671**
Disposals	–	(203)	(69)	(5)	**(277)**
31 December 2016	**929**	**6,364**	**2,516**	**4,656**	**14,465**
Accumulated depreciation					
1 January 2016	**(308)**	**(1,976)**	**(1,132)**	**(1,605)**	**(5,021)**
Depreciation charge	(47)	(1,270)	(396)	(778)	**(2,491)**
Disposals	–	174	25	3	**202**
31 December 2016	**(355)**	**(3,072)**	**(1,503)**	**(2,380)**	**(7,310)**
Net book value as at 1 January 2016	**621**	**3,236**	**1,137**	**2,056**	**7,050**
Net book value as at 31 December 2016	**574**	**3,292**	**1,013**	**2,276**	**7,155**

(thousands of Georgian Lari)

8. Property and equipment (continued)

The movements in property and equipment were as follows in 2015:

	Land and buildings (incl. leasehold)	*Furniture, fixtures and equipment*	*Motor vehicles*	*IT and computer equipment*	*Total*
Cost					
1 January 2015	**929**	**3,477**	**1,953**	**2,757**	**9,116**
Additions	–	1,881	318	931	**3,130**
Transfers	–	15	–	(15)	**–**
Disposals	–	(161)	(2)	(12)	**(175)**
31 December 2015	**929**	**5,212**	**2,269**	**3,661**	**12,071**
Accumulated depreciation					
1 January 2015	**(262)**	**(1,214)**	**(726)**	**(994)**	**(3,196)**
Depreciation charge	(46)	(903)	(408)	(619)	**(1,976)**
Disposals	–	141	2	8	**151**
31 December 2015	**(308)**	**(1,976)**	**(1,132)**	**(1,605)**	**(5,021)**
Net book value as at 1 January 2015	**667**	**2,263**	**1,227**	**1,763**	**5,920**
Net book value as at 31 December 2015	**621**	**3,236**	**1,137**	**2,056**	**7,050**

9. Intangible assets

The movements in intangible assets 2016 were as follows:

	Licenses	*Core banking software*	*Other software*	*Total*
Cost				
1 January 2016	**2,082**	**160**	**473**	**2,715**
Additions	1,319	621	–	**1,940**
Disposals and write-offs	–	–	(17)	**(17)**
31 December 2016	**3,401**	**781**	**456**	**4,638**
Accumulated amortization				
1 January 2016	**(366)**	**(53)**	**(294)**	**(713)**
Amortization charge	(568)	(110)	(107)	**(785)**
Disposals and write-offs	–	–	12	**12**
31 December 2016	**(934)**	**(163)**	**(389)**	**(1,486)**
Net book value as at 1 January 2016	**1,716**	**107**	**179**	**2,002**
Net book value as at 31 December 2016	**2,467**	**618**	**67**	**3,152**

The movements in intangible assets were as follows in 2015:

	Licenses, rights, patents	*Core banking software*	*Other software*	*Total*
Cost				
1 January 2015	**–**	**–**	**1,374**	**1,374**
Additions	1,341	–	–	**1,341**
Transfers within intangible assets	741	160	(901)	**–**
31 December 2015	**2,082**	**160**	**473**	**2,715**
Accumulated amortization				
1 January 2015	**–**	**–**	**(295)**	**(295)**
Amortization charge	(323)	–	(95)	**(418)**
Transfers within intangible assets	(43)	(53)	96	**–**
31 December 2015	**(366)**	**(53)**	**(294)**	**(713)**
Net book value as at 1 January 2015	**–**	**–**	**1,079**	**1,079**
Net book value as at 31 December 2015	**1,716**	**107**	**179**	**2,002**

(thousands of Georgian Lari)

10. Income tax

Corporate income tax (profit tax) rate was 15% in 2016 and 2015.

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments become effective from 1 January 2017 for all Georgian companies except the banks, insurance companies and microfinance organization, for which the effective date is 1 January 2019. Under the new regulation, corporate income tax will be levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia, rather than on profit earned as under the current regulation. The amount of tax payable on a dividend distribution will be calculated as 15/85 of the amount of net distribution. The companies will be able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008-2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies will not be subject to corporate income tax.

Following the enactment of the amendments, as at 31 December 2016 the Company remeasured its deferred tax assets and liabilities at the tax rates that were expected to apply to the period when the asset is realised or the liability is settled. As IAS 12 *Income Taxes* requires, the Company used 0% tax rate applicable for undistributed profits in respect of assets and liabilities expected to be realized or settled in the periods when the new regulation becomes effective starting from 1 January 2019.

The amendments to the Georgian tax law described above also provide for charging corporate income tax on certain transactions that are considered deemed profit distributions, e.g. some transactions at non-market prices, non-business related expenses or supply of goods and services free of charge. Taxation of such transaction is outside scope of IAS 12 *Income Taxes* and will be accounted similar to operating taxes starting from 1 January 2019. Tax law amendments related to such deemed profit distribution did not have any effect on the Company's financial statements for the year ended 31 December 2016. Income tax charge for the year comprised of following:

The Company recognized income tax benefit resulting from reversal of deferred tax assets and liabilities in amount of GEL 158 in profit or loss for the year ended 31 December 2016 to account for changes in legislation described above.

Income tax for the period comprised of the following:

	2016	*2015*
Current year tax expense	5,823	5,047
Deferred taxation movement due to origination and reversal of temporary differences	(2,063)	636
Total income tax expense	**3,760**	**5,683**

Reconciliation of effective tax rate for the year ended 31 December

	2016		*2015*	
Profit before income tax	29,979	100%	31,858	100%
Income tax by applicable tax rate	4,497	15%	4,779	15%
Non-deductible expenses less non-taxable income	932	3%	476	2%
Change in tax base of loan loss allowance	(1,511)	(5%)	430	1%
Change in tax regulation	(158)	(1%)	–	–
	3,760	13%	**5,683**	18%

(thousands of Georgian Lari)

10. Income tax (continued)

Deferred tax asset and liability

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 and liabilities as of 31 December 2016 and 2015, respectively.

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

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	Balance 31 December 2014	*Recognized in profit or loss*	*Balance 31 December 2015*	*Recognized in profit or loss*	*Balance 31 December 2016*
Derivatives	(27)	(32)	(59)	20	(39)
Loan portfolio, except for loan loss allowance	510	(140)	370	95	465
Loan loss allowance	430	(430)	–	1,512	1,512
Property and equipment and intangible assets	(817)	(81)	(898)	168	(730)
Other assets	21	(31)	(10)	(16)	(26)
Loans and borrowings	478	5	483	260	743
Wages payable and other liabilities	525	73	598	24	622
	1,120	**(636)**	**484**	**2,063**	**2,547**

11. Other financial assets

Other financial assets comprise:

	2016	*2015*
Other financial assets		
Funds in settlement	3,678	2,984
Accrued life insurance fees	963	809
Receivables from employees	387	336
Other	228	–
Less: allowance for impairment of other financial assets	(141)	(141)
Total financial assets	**5,115**	**3,988**

12. Other non-financial assets

Other non-financial assets comprise:

	2016	*2015*
Other non-financial assets		
Prepayments and advances	1,199	1,338
Repossessed property	531	268
Inventory	441	405
Prepaid taxes other than income tax	191	172
Total non-financial assets	**2,362**	**2,183**

The Company holds repossessed property which represent land and other real estate taken into Company's ownership as a settlement of non-performing loans. The Company intends to sell those assets in normal course of business.

(thousands of Georgian Lari)

13. Loans from banks and other financial institutions and subordinated loans

	2016	*2015*
Senior debt		
Non-current liabilities		
Unsecured loans from financial institutions	228,036	246,240
Current liabilities		
Unsecured loans from financial institutions	182,510	125,256
Total senior debt	**410,546**	**371,496**
Subordinated debt		
Non-current liabilities		
Unsecured loans from financial institutions	8,120	8,120
Current liabilities		
Unsecured loans from financial institutions	298	2,743
Total subordinated debt	**8,418**	**10,863**
Total debt	**418,964**	**382,359**

As at 31 December 2016 loans from banks and other financial institutions and subordinated loans mature from January 2017 to December 2020, and bear interest rates ranging from 7.24% to 15.00% in GEL and from 3.00% to 7.80% in USD. As at 31 December 2015 loans from banks and other financial institutions and subordinated loans mature from January 2016 to June 2020 and bear interest rates ranging from 11.00% to 14.00% in GEL and from 6.50% to 12.50% in USD.

As at 31 December 2016, the Company was in compliance with all externally imposed financial covenants.

14. Other liabilities

	2016	*2015*
Wages and salaries accrued	4,323	3,533
Funds in settlement	2,447	1,238
Payables for goods and services	827	594
Accrued expenses	529	131
Grant liabilities	355	–
Taxes other than income tax	60	790
	8,541	**6,286**

15. Equity

The share capital of the Company was contributed by the shareholders in GEL and they entitle to dividends and any capital distribution in GEL.

As at 31 December 2016, the Company's authorized, issued and fully paid capital amounted to GEL 4,400 comprising of 440,000 common shares with nominal value of GEL 10.00. Each share entitles one vote to the shareholder.

Dividends

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

In 2016, the Company did not declare any dividends. In 2015, the Company declared and fully paid GEL 7,000 dividends to the shareholders, subject to withholding tax of GEL 359.

(thousands of Georgian Lari)

16. Commitments and contingencies

Credit related commitments

In the normal course of business, the Company enters into credit related commitments, comprising undrawn loan commitments.

The Company has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved credit card limits of “Wish” and “Crop” credit cards. These credit cards have fixed limits and generally extend for a period of up to eight months.

The Company applies the same credit risk management policies and procedures when granting credit commitments as it does for granting loans to customers. Customers with loans in arrears more than four days cannot draw any portion of their limits.

The respective undrawn balances are as follow:

	2016	***2015***
Undrawn limit on credit cards	44,300	48,145

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. The Company has unconditional right to cancel unused card balance any time.

Legal

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

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

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

As at 31 December 2016 management believes that its interpretation of the relevant legislation is appropriate and that the Company’s tax positions will be sustained.

Insurance

The Company has full insurance coverage of its premises and equipment. The Company has insurance for third party liability, directors’ and officers’ liability, and Banker’s Blanket Bond insurance.

17. Fee and commission income

Net fee and commission income comprises:

Fee income	***2016***	***2015***
Insurance fees	13,805	13,223
Annual service fee	1,271	3,803
Plastic cards service	1,052	794
SMS service	928	675
Cash operations with clients	874	304
Pay-box fees	219	290
Other fees	136	102
	18,285	**19,191**

(thousands of Georgian Lari)

18. Fee and commission expense

Fee expense	*2016*	*2015*
Life insurance expense	3,331	2,792
Plastic cards fees	613	619
Cash collection, transportation and money transfer fees	593	860
Credit bureau	344	322
Commissions paid to banks for cash operations	139	320
SMS fee	54	64
	5,074	**4,977**

19. Net (losses)/gains from foreign currencies

Net (losses)/gains from foreign currencies comprise gains from currency dealing, translation differences and net result on transactions with foreign currency derivatives.

	2016	*2015*
Dealing	1,596	3,265
Translation differences	(9,599)	(10,254)
Net result from financial assets at fair value through profit or loss	5,531	8,466
	(2,472)	**1,477**

20. Other operating income

	2016	*2015*
Reversal of provision	656	–
Income from grants	437	14
Reimbursement of losses	58	106
Disposal of property, plant and equipment	22	30
Other	25	1
	1,198	**151**

21. Personnel expenses

Personnel expenses comprise:

	2016	*2015*
Salary expenses	39,043	33,521
Other personnel expenses	7,479	8,080
	46,522	**41,601**

Other personnel expenses are represented by salaries of village councils, health and pension insurance, other employee benefits.

(thousands of Georgian Lari)

22. Other general administrative expenses

	2016	*2015*
Occupancy expenses	5,107	4,078
Transport and travel expenses	3,712	4,449
Legal and advisory expenses	2,248	1,924
Marketing, advertising and entertainment	1,847	1,241
Supplies, other consumables	1,516	1,610
Communication expenses	1,283	1,103
Repair and maintenance	762	953
Training	501	474
Software expenses	383	160
Insurance expenses	235	168
Security service expenses	181	145
Operating taxes	151	198
Other	575	799
	18,501	**17,302**

23. Risk management

Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Company is exposed to credit risk, financial risk and operating risks.

Supervisory Board and Management Board

The Supervisory Board together with its committees has overall responsibility for the execution of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures.

Management is responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. The Management Board reports directly to the Supervisory Board.

ALCO

ALCO has the overall responsibility for the development of the finance risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Internal audit

Risk management processes throughout the Company are audited annually by the internal audit function that examines both the adequacy of the procedures and Company's compliance with the procedures. Internal Audit reports directly its findings and recommendations to the Audit Committee.

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties.

Credit risk is monitored by credit department. There are several levels of approval based on loan amount.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, is best represented by their carrying amounts. Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 7.

(thousands of Georgian Lari)

23. Risk management (continued)

Financial risk

Company is exposed to different types of financial risks as non-bank financial institution: liquidity risk and market risk, including foreign currency risk and interest rate risk.

These risks are controlled and managed on ongoing basis.

Financial risks are measured and controlled by Financial Risk Management Unit, which reports to the main decision making body – ALCO which includes members of the senior management. ALCO is responsible for making primary risk decisions, as well for establishment of risk policies and limits. The policies developed by ALCO are approved by the Supervisory Board..

ALCO meetings are held on regular basis. At ALCO meetings, exposures to financial risks are discussed and risk mitigation decisions are made. In addition, any potential exposure to financial risks related to any new product are analyzed and appropriate decisions are made on measurement, limitation and managing of such the risks.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances To limit the risk, management has arranged diversified funding sources, these are long-term fund from international financial institutions (IFIs) and loans with local banks, to provide funds timely upon request. Overdrafts from local banks are also available in case of emergency liquidity needs.

Liquidity management is the key part of asset and liability management. Future cash inflows and outflows are monitored continuously. Short-term liquidity plan is developed in the beginning of every month. The plan includes weekly liquidity planning for the following one month and detailed planning for the next two months, along with projections for the following twelve months that are prepared on a monthly basis.

Funding decisions are made on regular ALCO meetings that are held at least monthly or more frequently if required.

Liquidity position is assessed on monthly basis by liquidity ratios that are defined by Financial Risk Management Policy.

In addition, Company's Treasury department monitors liquidity position on daily basis and ensures that appropriate liquidity positions are maintained in accordance with the internal limits that are set based on historical data and consider relevant internal and external factors, such as funding cost and disbursement seasonality. By doing so, Treasury may reallocate funds to branches and for various operational needs efficiently as needed.

To avoid holding excessive liquidity, the management establishes maximum cash levels. The amounts above the limit are placed with top rated local banks. Exposure limits are defined for the local banks and approved by the Board of Directors.

The table below summarizes the maturity profile of the Company's financial assets and liabilities as of 31 December 2016 based on contractual undiscounted obligations:

	Demand and less than 1 month	*More than 1 month and less than 1 year*	*More than 1 year*	*Total gross outflow*
Cash and cash equivalents	43,994	23,949	–	**67,943**
Derivative financial assets (notional amounts receivable)	16,115	38,841	42,759	**97,715**
Loans to customers	20,447	313,590	208,432	**542,469**
Other financial assets	4,163	727	225	**5,115**
Total financial assets	**84,719**	**377,107**	**251,416**	**713,242**
Loans from banks and other financial institutions	8,310	196,532	253,980	**458,822**
Derivative financial liabilities (notional amounts payable)	16,177	32,714	38,452	**87,343**
Promissory notes issued	–	630	–	**630**
Other financial liabilities	5,341	2,785	–	**8,126**
Subordinated debt	–	893	9,564	**10,457**
Total financial liabilities	**29,828**	**233,554**	**301,996**	**565,378**
Maturity gap	**54,891**	**143,553**	**(50,580)**	**147,864**

(thousands of Georgian Lari)

23. Risk management (continued)

Liquidity risk (continued)

The table below summarizes the maturity profile of the Company's financial Assets and liabilities as of 31 December 2015 based on contractual undiscounted obligations:

	Demand and less than 1 month	*More than 1 month and less than 1 year*	*More than 1 year*	*Total gross amount outflow*
Cash and cash equivalents	44,102	–	–	**44,102**
Derivative financial assets	14,702	66,215	34,131	**115,048**
Loans to customers	34,502	276,685	241,287	**552,474**
Other financial assets	3,313	675	–	**3,988**
Total financial assets	**96,619**	**343,575**	**275,418**	**715,612**
Loans from banks and other financial institutions	3,745	139,383	270,150	**413,278**
Derivative financial liabilities	13,701	62,796	30,596	**107,093**
Other financial liabilities	5,169	1,116	–	**6,285**
Subordinated debt	–	3,588	10,457	**14,045**
Total financial liabilities	**22,615**	**206,883**	**311,203**	**540,701**
Maturity gap	**74,004**	**136,692**	**(35,785)**	**174,911**

Currency risk

Foreign currency asset and liability matching is the key tool in monitoring the net open foreign currency (FX) position of the Company. The table below quantifies the net open FX position for the Company as the difference between foreign currency assets and liabilities, less the effect of foreign currency derivatives held for risk management purposes. A gap in any currency other than the local currency represents potential risk. Negative FX gap represents risk to appreciation of the foreign currency, while positive gap represents risk towards depreciation of the foreign currency. The Management Board sets limits on the FX positions within the limits established by the Supervisory Board..

The following table shows the foreign currency exposure structure of financial assets and liabilities:

	2016			*2015*
	USD	*EUR*	*Other*	*USD*
Cash and cash equivalents	47,336	1,848	814	38,024
Loans to customers	156,658			189,645
Other assets	1,874	10		1,397
Total assets	**205,868**	**1,858**	**814**	**229,066**
Loans and borrowings	275,024			337,385
Other liabilities	1,583	268	–	678
Total liabilities	**276,607**	**268**	**–**	**338,063**
The effect of derivatives held for risk management	65,008	–	–	111,313
Net position after derivatives held for risk management purposes	(5,731)	1,590	814	2,316

Exchange rate sensitivity analysis

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

	2016	*2015*
20% appreciation of USD against GEL	(1,146)	463
20% depreciation of USD against GEL	1,146	(463)

(thousands of Georgian Lari)

23. Risk management (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows. Company's loans to clients are issued at fixed rates. Rates can be changed upon renewal of the loans. Therefore Company aims to obtain preferably fixed rate debt funding to reduce the risk of re-pricing from the funding side. The management controls the maturity gap between interest bearing assets and liabilities, as well as monitors the margin between actual interest rate on the loan portfolio and weighted cost of funding. Company continuously works to set interest rates in a competitive environment and negotiates funding terms with the investors.

The table reflects asset and liabilities that are exposed to fluctuation in Interest rate risk as of 31 December 2016:

	Demand and less than 1 month	*More than 1 month and less than 1 year*	*More than 1 year*	*Carrying amount*
Cash and cash equivalents	43,994	23,821	–	67,815
Loans and advances to customers	20,484	52,404	370,541	443,429
Total interest-bearing assets	**64,478**	**76,225**	**370,541**	**511,244**
Loans from banks and other financial institutions, including subordinated debt	62,618	72,631	283,715	418,964
Total interest-bearing liabilities	**62,618**	**72,631**	**283,715**	**418,964**
Interest rate gap	**1,860**	**3,594**	**86,826**	**92,280**

The table reflects asset and liabilities that are exposed to fluctuation in Interest rate risk as of 31 December 2015:

	Demand and less than 1 month	*More than 1 month and less than 1 year*	*More than 1 year*	*Carrying amount*
Cash and cash equivalents	44,102	–	–	44,102
Loans and advances to customers	33,697	213,068	159,110	405,875
Total interest-bearing assets	**77,799**	**213,068**	**159,110**	**449,977**
Loans from banks and other financial institutions, including subordinated debt	7,081	84,951	290,327	382,359
Total interest-bearing liabilities	**7,081**	**84,951**	**290,327**	**382,359**
Interest rate gap	**70,718**	**128,117**	**(131,217)**	**67,618**

Interest rate sensitivity analysis

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

	2016	*2015*
	Profit or loss	*Profit or loss*
100 bp parallel fall	(923)	(608)
100 bp parallel rise	923	608

Operating risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. Controls are in place to ensure segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Anti-money laundering (AML) compliance is controlled by a dedicated AML unit.

Tax compliance is monitored by the tax compliance unit.

(thousands of Georgian Lari)

24. Fair value measurements

Fair value measurement procedures

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

The Company's financial department determines the policies and procedures for fair value measurement for Company's assets including derivatives. The estimated fair values of all financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

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

Fair value hierarchy

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

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

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

	Fair value measurement using				
At 31 December 2016	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***	***Carrying amount***
Assets measured at fair value					
Derivative financial assets					
Foreign exchange forwards and swaps	–	12,415	–	**12,415**	**12,415**
Assets for which fair values are disclosed					
Cash and cash equivalents	–	67,815	–	**67,815**	**67,815**
Loans to customers	–	–	469,916	**469,916**	**443,429**
Liabilities for which fair values are disclosed					
Loans from banks and other financial institutions	–	418,095	–	**418,095**	**418,964**

(thousands of Georgian Lari)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

	Fair value measurement using				
At 31 December 2015	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***	***Carrying amount***
Assets measured at fair value					
Derivative financial assets					
Foreign exchange forwards and swaps	–	12,024	–	**12,024**	**12,024**
Assets for which fair values are disclosed					
Cash and cash equivalents	–	44,102	–	**44,102**	**44,102**
Loans to customers	–	–	398,861	**398,861**	**405,875**
Liabilities for which fair values are disclosed					
Loans from banks and other financial institutions	–	383,034	–	**383,034**	**382,359**

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), as well as for floating rate instruments, the carrying amounts are assumed to approximate their fair value.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Fixed rate financial instruments

The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(thousands of Georgian Lari)

25. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

	2016		2015	
	Transaction value	***Balance***	***Transaction value***	***Balance***
Statement of financial position				
Liabilities				
Loans from banks and other financial institutions	–	58,893	–	68,180
Subordinated debt		8,418		8,418
Payables	–	241	–	271
Profit or loss				
Interest expense on loans from banks and other financial institutions	5,032	–	4,877	–
Interest expense on subordinated debt	893		893	
Other general and administrative expense	1,300	–	1,484	–

In 2016, the management reconsidered its judgment in determination whether certain shareholders exercised significant influence over the Company as at 31 December 2015 and for the year then ended, and concluded that such shareholders were related parties to the Company. Disclosure of transactions with such parties as at 31 December 2015 and for the year then ended was included to these financial statements.

Administrative expenses and payables represent transactions with company that provides key management personnel services to the reporting entity and to the parent of the reporting entity.

Loans received and related interest expense represent transactions with shareholders with significant influence over the Company. As at 31 December 2016 loans received from related parties mature from February 2017 to April 2019, are denominated in USD and GEL and carry interest rates from 6.50% to 11.00%. As at 31 December 2015 loans received from related parties mature from April 2016 to April 2019, are denominated in USD and GEL and carry interest rates from 6.50% to 11.00%.

Transactions with the Management Board

Total remuneration included in employee compensation for the year ended 31 December and represented by short-term benefits:

	2016	***2015***
Members of the Management Board	964	933

26. Capital adequacy

As at 31 December 2016 and 2015, the Company did not have any prudential requirements for capital adequacy from the National Bank of Georgia or other regulators. However, some loan agreements require the Company to comply with certain minimum capital adequacy requirements.

In 2016 and 2015, the Company complied in full with all its externally imposed capital requirements.

The Company manages its capital using Debt to Equity ratio, with internally set target of below 5.5:

	2016	***2015***
Total liabilities	428,651	388,727
Less cash and cash equivalents	(67,815)	(44,102)
Net debt	**360,836**	**344,625**
Total equity	115,339	89,120
Debt to capital ratio at 31 December	**3.13**	**3.87**

(thousands of Georgian Lari)

27. Events after the reporting period

On 20 March 2017, the Company obtained banking license from the National Bank of Georgia and was renamed to JSC Credo Bank.