Qualified Credit Institution Microfinance Organization Rico Express LLC

Financial statements

Year ended 31 December 2015
together with independent auditor's report

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Independent Auditor's Report

To the Supervisory Board of Qualified Credit Institution MFO Rico Express LLC

We have audited the accompanying financial statements of Qualified Credit Institution MFO Rico Express LLC, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Qualified Credit Institution MFO Rico Express LLC as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of Qualified Credit Institution MFO Rico Express LLC for the year ended 31 December 2014 were audited by another auditor who expressed qualified opinion on those statements on 11 August 2015. Qualification of opinion was due to inability to obtain sufficient appropriate audit evidence in respect of the amounts of fair values of collaterals disclosed in note 11 to the financial statements due to unavailability of proper documentation and the deficiencies in the process of preparation of relevant information for financial statements' disclosures.

EY Georgia LLC

16 June 2016

Statement of financial position

As of 31 December 2015

(Thousands of Georgian Lari)

	Notes	2015	2014 (Reclassified)*	As at 1 January 2014 (Reclassified)*
Assets				
Cash and cash equivalents	5	67,288	23,089	23,080
Restricted cash		–	6,947	–
Loans to customers	6	219,430	156,413	107,526
Property and equipment	7	13,613	10,425	8,718
Intangible assets		49	75	100
Other assets	8	3,966	2,855	614
Total assets		**304,346**	**199,804**	**140,038**
Liabilities				
Promissory notes issued	9	185,936	129,105	103,644
Borrowed funds	10	25,994	19,798	2,358
Current income tax liabilities		2,529	624	1,084
Deferred income tax liabilities	11	793	620	678
Other liabilities	12	4,949	319	69
Total liabilities		**220,201**	**150,466**	**107,833**
Equity				
Charter capital	13	836	836	836
Retained earnings		80,281	47,501	30,324
Revaluation reserve	13	3,028	1,001	1,045
Total equity		**84,145**	**49,338**	**32,205**
Total equity and liabilities		**304,346**	**199,804**	**140,038**

* *Certain amounts shown here do not correspond to the 2014 financial statements and reflect reclassifications made, refer to Note 2.*

Signed and authorized for release

Tamar Gogodze — Executive Director

Zurab Gabiskiria — Head of financial accounting and reporting department

16 June 2016

The accompanying notes on pages 5 to 30 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2015

(Thousands of Georgian Lari)

	Notes	2015	2014* (Restated)
Interest income			
Loans to customers		54,043	38,630
Cash and cash equivalents		1,051	907
		55,094	**39,537**
Interest expense			
Debt securities issued		(16,579)	(12,863)
Borrowed funds		(2,118)	(988)
		(18,697)	**(13,851)**
Net interest income		**36,397**	**25,686**
Allowance for loan impairment	6	(829)	(2,502)
Net interest income after allowance for loan impairment		**35,568**	**23,184**
Commissions from money transferring activity		1,841	1,081
Net gains from foreign currencies:			
- currency trading		5,404	2,915
- translation differences		6,111	135
Other income		8	88
Non-interest income		**13,364**	**4,219**
Personnel expenses		(4,818)	(3,941)
Depreciation, amortization and impairment		(1,357)	(795)
Other general and administrative expenses	15	(3,793)	(2,418)
Non-interest expense		**(9,968)**	**(7,154)**
Profit before income tax expense		**38,964**	**20,249**
Income tax expense	11	(5,143)	(2,976)
Profit for the year		**33,821**	**17,273**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of buildings	7, 13	2,609	–
Income tax effect	11, 13	(391)	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax		**2,218**	**–**
Total comprehensive income for the year		**36,039**	**17,273**

* *Certain amounts shown here do not correspond to the 2014 financial statements and reflect adjustments and reclassifications made, refer to Note 2.*

The accompanying notes on pages 5 to 30 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2015

(Thousands of Georgian Lari)

	Charter capital	*Retained earnings*	*Revaluation reserve*	*Total*
1 January 2014	**836**	**30,324**	**1,045**	**32,205**
Profit for the year	–	17,273	–	**17,273**
Depreciation of revaluation reserve	–	44	(44)	**–**
Dividends declared (Note 13)	–	(140)	–	**(140)**
31 December 2014	**836**	**47,501**	**1,001**	**49,338**
Profit for the year	–	33,821	–	**33,821**
Other comprehensive income for the year	–	–	2,218	**2,218**
Total comprehensive income for the year	**–**	**33,821**	**2,218**	**36,039**
Depreciation and transfer of revaluation reserve (Note 13)	–	191	(191)	**–**
Dividends declared (Note 13)	–	(1,232)	–	**(1,232)**
31 December 2015	**836**	**80,281**	**3,028**	**84,145**

The accompanying notes on pages 5 to 30 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2015

(Thousands of Georgian Lari)

	2015	*2014* (Reclassified)*
Cash flows from operating activities		
Interest received	53,396	37,920
Interest paid	(18,597)	(13,919)
Proceeds from sale of repossessed collateral	7,092	3,982
Receipts from trading in foreign currency	5,404	2,915
Commissions received from money transferring activity	1,757	1,081
Other income received	39	45
Personnel expenses paid	(4,645)	(3,935)
Other operating expenses paid	(3,458)	(2,427)
Cash flows from operating activities before changes in operating assets and liabilities	**40,988**	**25,662**
Change in operating assets and liabilities		
Loans to customers	(28,614)	(45,468)
Other assets	(961)	(1,785)
Cash release from restriction/(restriction)	6,947	(6,947)
Other liabilities	4,141	250
Net cash flows from / (used in) operating activities before income tax	**22,501**	**(28,288)**
Income tax paid	(3,456)	(3,420)
Net cash from / (used in) operating activities	**19,045**	**(31,708)**
Cash flows from investing activities		
Purchase of property and equipment	(1,919)	(2,430)
Proceeds from sale of property and equipment	–	74
Net cash used in investing activities	**(1,919)**	**(2,356)**
Cash flows from financing activities		
Proceeds from borrowed funds	21,044	36,250
Repayment of borrowed funds	(14,789)	(18,956)
Net promissory notes issued	20,237	16,925
Dividends paid	(1,232)	(140)
Net cash from financing activities	**25,260**	**34,079**
Effect of exchange rates changes on cash and cash equivalents	1,813	(6)
Net increase in cash and cash equivalents	**44,199**	**9**
Cash and cash equivalents, beginning (Note 5)	**23,089**	**23,080**
Cash and cash equivalents, ending (Note 5)	**67,288**	**23,089**

* *Certain amounts shown here do not correspond to the 2014 financial statements and reflect adjustments and reclassifications made, refer to Note 2*

The accompanying notes on pages 5 to 30 are an integral part of these financial statements.

(Thousands of Georgian Lari)

1. Principal activities

Qualified Credit Institution MFO Rico Express LLC. (the "Company") was established as limited liability company on 1 July 2004 under the laws of Georgia.

On 11 April 2007 the Company was registered as microfinance organization by the National Bank of Georgia ("NBG") with the registration number #80407. On 26 June 2013 the Company obtained status of qualified credit institution from the NBG and obtained right to issue short term promissory notes to the individuals.

Legal address of the Company is 70 Chavchavadze ave, Tbilisi, Georgia.

The Company's main activities are issuance of small and medium-sized loans to individuals collaterized by movable property (mostly precious metals and real estate), currency dealing and money transfers.

As at 31 December 2015 and 31 December 2014, Ms Dali Urushadze was the sole owner of the Company.

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. Land and buildings have been measured at fair value.

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

Reclassifications and corrections of prior year balances

The following reclassifications and corrections have been made to 2014 balances:

Statement of financial position as at 31 December 2014	***As previously reported***	***Correction/ reclassification***	***As corrected/ reclassified***
Loan portfolio, gross (B)	160,385	(678)	159,707
Loan loss allowance (B)	(3,972)	678	(3,294)
Other receivables and advances (A)	2,829	(2,829)	–
Inventories (A)	26	(26)	–
Other assets (A)	–	2,855	2,855
Borrowings (A)	148,903	(148,903)	–
Promissory notes issued (A)	–	129,105	129,105
Borrowed funds (A)	–	19,798	19,798

Statement of financial position as at 1 January 2014	***As previously reported***	***Reclassification***	***As reclassified***
Other receivables and advances (A)	579	(579)	–
Inventories (A)	35	(35)	–
Other assets (A)	–	614	614
Borrowings (A)	106,002	(106,002)	–
Promissory notes issued (A)	–	103,644	103,644
Borrowed funds (A)	–	2,358	2,358

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Reclassifications and corrections of prior year balances (continued)

Statement of comprehensive income for the year ended 31 December 2014	*As previously reported*	*Correction/ reclassification*	*As corrected/ reclassified*
Interest income (B, C)	40,965	(1,428)	39,537
Allowance for loan impairment (B, C)	(1,602)	(900)	(2,502)
Income from sales of collaterals (C)	3,908	(3,908)	–
Cost of sales of collaterals (C)	(6,236)	6,236	–
General and administrative expenses (A)	(7,154)	7,154	–
Personnel expenses (A)	–	(3,941)	(3,941)
Depreciation, amortization and impairment (A)	–	(795)	(795)
Other general and administrative expenses (A)	–	(2,418)	(2,418)

(A) The reason for reclassifications was to provide the users more reliable and relevant information about the effects of transactions on the Company's financial position and financial performance.

(B) The Company inappropriately recognized interest income that did not meet revenue recognition criteria of IAS 18 in the amount of GEL 678 thousand and was fully provisioned as at 31 December 2014, resulting in overstatement of interest income and allowance for loan impairment charge for the year ended 31 December 2014, and respective overstatement of gross loan portfolio and loan loss allowance as at 31 December 2014. This misstatement did not have a significant effect on the statement of financial position as at 1 January 2014.

(C) During the year ended 31 December 2014, the Company overstated repossessed collateral at initial recognition by GEL 2,328 as the result of overstatement of net carrying value of respective extinguished loans by GEL 750 of accrued income that did not meet IAS 18 revenue recognition criteria, and understatement of loan loss allowance by GEL 1,578. This misstatement resulted in overstatement of loss from sale of repossessed collateral by GEL 2,328, overstatement of interest income by GEL 750, and understatement of loan loss allowance charge by GEL 1,578 for the year ended 31 December 2014. This misstatement did not have a significant effect on the statement of financial position as at 31 December 2014 and 1 January 2014.

In addition, the Company considered that sales of collateral represent incidental activities to the Company's main revenue-generating activities and thus decided to present the result from sale of collateral on net basis.

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.

3. Summary of accounting policies

Fair value measurement

The Company measures land and buildings at fair value.

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.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

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. The Company determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below. As at 31 December 2015, all financial assets of the Company are classified as loans and receivables.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Company commits to purchase the asset. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Financial assets (continued)

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Company has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Company has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and amount due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Borrowed funds and issued promissory notes

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. Such instruments include amounts promissory notes issued and borrowed funds. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

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 recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Measurement of financial instruments at initial recognition

When financial instruments are recognised 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:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Company recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- 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.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

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 recognised amounts and there is an intention to settle on a net basis, or to realise 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 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, 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.

Loans to customers

For loans to customers, the Company assesses whether objective evidence of impairment exists collectively for financial assets that are not individually significant. The Company collectively assesses for impairment the groups of financial assets with similar credit risks characteristics.

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.

Lombard loans together with the associated allowance are usually written off and the collateral is repossessed when the respective loan becomes overdue for more than 90 days. Non-performing mortgage loans are written-off when collateral recovery procedures are completed and no further cash inflows are expected from the borrower or collateral, which may take up to 2 years.

If a future write-off is later recovered, the recovery is credited to the profit or loss as reversal of allowance for loan impairment.

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, loan currency and credit product.

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.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

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.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Tax Code of Georgia.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the 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, except where the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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 utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Georgia also has various operating taxes, which are assessed on the Company’s activities. These taxes are included as a component of other operating expenses.

Precious metals

Gold and other precious metals received as repossessed collateral in settlement of loans from non-performing borrowers are initially recorded cost which equals net carrying value of the extinguished loan at repossession date. Subsequently it is measured at fair value determined at Bloomberg bid prices less expected melting costs. Changes in the fair value after initial recognition and gains/losses from disposal are recorded as translation differences from precious metals in net gains from foreign currencies.

Property and equipment

Following initial recognition at cost, land and buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Property and equipment (continued)

An annual transfer from the revaluation reserve for property to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Property and equipment other than land and buildings are 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. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

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	25
Furniture and fixtures	5
Computers and office equipment	5
Motor vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Land is not depreciated.

Intangible assets

Intangible assets include computer software and licenses. Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic lives of 5 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods are reviewed at least at each financial year-end.

Provisions

Provisions are recognised 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.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest and similar income and expense

For all financial instruments measured at amortised 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. Fines and penalties for overdue payments on loans are recognized similar to interest income to the extend it is probable that associated economic benefits will flow to the Company. Once the 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 recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Company earns fee and commission from money transferring transactions that are recognised on completion of the underlying transaction.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Foreign currency translation

The financial statements are presented in Georgian Lari, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss as gains less losses from foreign currencies − translation differences. 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.

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 financial statements, and that might affect Company's financial position and results, 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.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will 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 expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 *Leases* with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 *Leases*. Lessees will recognize a "right of use" asset and a corresponding financial liability on the balance sheet. The asset will be amortized over the length of the lease and the financial liability measured at amortized cost. Lessor accounting remains substantially the same as in IAS 17. The Company is currently assessing the impact of IFRS 16 on its financial statements.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 7 Financial Instruments: Disclosures − applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "[A]n entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase "and interim periods within those annual periods", clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 19 Employee Benefits − regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 34 Interim Financial Reporting − disclosure of information "elsewhere in the interim financial report"

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

4. Significant accounting judgments and estimates

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

Estimation uncertainty

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

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 relating to 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. The amount of allowance for loan impairment recognized in statement of financial position at 31 December 2015 was 2,496 (2014: 3,294). More details are provided in Note 6.

In 2015, the Company changed its approach to estimation of collective loan loss allowance by changing criteria for identification of groups of assets that have similar credit risk characteristics, and increase of historical loss period from 1 to 3 years, which resulted in GEL 2,500 reversal of allowance for loan impairment in profit or loss for the year ended 31 December 2015.

(Thousands of Georgian Lari)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Revaluation of property and equipment

The Company carries its land and buildings at fair value, with changes in fair value being recognised in other comprehensive income. The Company engaged independent valuation specialists to determine fair value as at 31 December 2015 for land and buildings. For revaluation, the valuator used a valuation technique based on a comparable market data as well as assumptions on capitalization rates. The key assumptions used to determine the fair value of the Company's land and buildings are further explained in Note 18.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2015	*2014*
Cash on hand	19,616	16,441
Current accounts with other credit institutions	47,038	6,648
Cash in transit	634	–
	67,288	**23,089**

As at 31 December 2015, GEL 33,092 or 70% (2014: GEL 2,643 or 40%) of current accounts with other credit institutions is placed within two (2014: one) Georgian banks.

6. Loans to customers

The Company issues small and medium-sized loans to individuals: mortgage loans secured by real estate, and lombard loans secured by precious metals (mostly gold) and jewelry.

Lombard loans are issued normally for 1 month (for loans denominated in GEL) or 6 month (for loans in US dollars and euro) period, with an option to roll-over at the mutual agreement of the borrower and the Company, and mortgage loans are normally issued for 35 months period.

Loans to customers comprise:

	2015	*2014 (restated)*
Lombard loans	125,869	92,305
Mortgage loans	96,057	67,402
Gross loans to customers	**221,926**	**159,707**
Less: allowance for impairment	(2,496)	(3,294)
Loans to customers	**219,430**	**156,413**

(Thousands of Georgian Lari)

6. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows (restated):

	Lombard loans	*Mortgage loans*	*Total*
At 1 January 2014	**1,615**	**768**	**2,383**
Charge for the year (restated)	2,484	18	**2,502**
Amounts written off (restated)	(1,578)	(13)	**(1,591)**
At 31 December 2014 (restated)	**2,521**	**773**	**3,294**

	Lombard loans	*Mortgage loans*	*Total*
At 1 January 2015 (restated)	**2,521**	**773**	**3,294**
Charge for the year	561	268	**829**
Amounts written off	(1,617)	(10)	**(1,627)**
At 31 December 2015	**1,465**	**1,031**	**2,496**

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.

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 main types of collateral obtained are as follows:

- precious metals;
- real estate.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Below is summary of loans to customers secured by various types of collateral, presenting the carrying value of respective loans but not the fair value of the collateral provided:

	2015	*Share in the loan portfolio %*	*2014*	*Share in the loan portfolio %*
Loans secured by precious metals	116,756	52.61%	92,305	57.80%
Loans secured by real estate	96,057	43.28%	67,402	42.20%
Loans secured by jewelry	8,368	3.77%	–	0.00%
Loans secured by issued promissory notes	262	0.12%	–	0.00%
Unsecured loans	483	0.22%	–	0.00%
Gross loan to customers	**221,926**	**100%**	**159,707**	**100%**
Less allowance for impairment	(2,496)		(3,294)	
Total loans to customers	**219,430**		**156,413**	

The Company is permitted to re-pledge the collateral received under lombard loans in absence of default of customer. As at 31 December 2015, fair value of precious metals held as collateral under lombard loans was equal to GEL 134,014 (2014: GEL 100,488).

As at 31 December 2015, collateral with fair value of GEL 55,585 (2014: GEL 40,547) in form of precious metals pledged by customers under lombard loans was re-pledged under borrowed funds from Georgian banks (Note 10).

(Thousands of Georgian Lari)

7. Property and equipment

The movements in property and equipment were as follows:

	Land and buildings	*Computers and commu-nication*	*Office equipment*	*Vehicles*	*Construction in progress*	*Total*
Cost/revalued amount						
31 December 2014	**9,005**	**1,792**	**475**	**908**	**211**	**12,391**
Additions	1,255	520	55	89	–	**1,919**
Disposals	–	–	–	(30)	–	**(30)**
Reclassifications	191	–	20	–	(211)	**-**
Effect of revaluation recognized in other comprehensive income	2,609	–	–	–	–	**2,609**
Elimination against accumulated depreciation on revaluation	(1,293)	–	–	–	–	**(1,293)**
31 December 2015	**11,767**	**2,312**	**550**	**967**	**-**	**15,596**
Accumulated depreciation						
31 December 2014	**(589)**	**(854)**	**(228)**	**(295)**	**-**	**(1,966)**
Depreciation charge	(369)	(359)	(93)	(175)	–	**(996)**
Disposals and write-offs	–	–	–	21	–	**21**
Elimination against historical cost on revaluation	1,293	–	–	–	–	**1,293**
Net revaluation result recognized in profit and loss**	(335)	–	–	–	–	**(335)**
31 December 2015	**-**	**(1,213)**	**(321)**	**(449)**	**-**	**(1,983)**
Net book value						
31 December 2014`	**8,416**	**938**	**247**	**613**	**211**	**10,425**
31 December 2015	**11,767**	**1,099**	**229**	**518**	**-**	**13,613**

	Land and buildings	*Computers and commu-nication*	*Office equipment*	*Vehicles*	*Construction in progress*	*Total*
Cost, revalued amount						
31 December 2013	**7,291**	**1,223**	**415**	**520**	**473**	**9,922**
Additions	1,249	572	60	394	211	**2,486**
Disposals	(8)	(3)	–	(6)	–	**(17)**
Reclassifications within the groups	473	–	–	–	(473)	**–**
31 December 2014	**9,005**	**1,792**	**475**	**908**	**211**	**12,391**
Accumulated depreciation and impairment						
31 December 2013	**(261)**	**(594)**	**(142)**	**(207)**	**–**	**(1,204)**
Depreciation charge	(328)	(260)	(86)	(95)	–	**(769)**
Disposals and write-offs	–	–	–	7	–	**7**
31 December 2014	**(589)**	**(854)**	**(228)**	**(295)**	**–**	**(1,966)**
Net book value						
31 December 2013	**7,030**	**629**	**273**	**313**	**473**	**8,718**
31 December 2014	**8,416**	**938**	**247**	**613**	**211**	**10,425**

** *In 2015, the revaluation result of GEL 335 recognised in profit or loss within depreciation, amortization and impairment.*

(Thousands of Georgian Lari)

7. Property and equipment (continued)

The Company engaged an independent valuer to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The date of the revaluation was 31 December 2015. More details about the fair value of buildings are disclosed in Note 18.

If the buildings were measured using the cost model, the carrying amounts would be as follows:

2015	*Buildings*	*Land*
Cost	10,147	235
Accumulated depreciation and impairment	(2,177)	–
Net carrying amount	**7,970**	**235**

2014	*Buildings*	*Land*
Cost	8,498	24
Accumulated depreciation and impairment	(1,107)	–
Net carrying amount	**7,391**	**24**

The Company's buildings with the carrying value of GEL 1,655 (2013: GEL 1,142) are used as a collateral for the loan obtained from a Georgian bank.

8. Other assets

Other assets comprise:

	2015	*2014*
Receivables from money transfer companies	2,653	1,563
Receivables due from clearing companies	643	957
Repossessed precious metals	457	26
Advances paid	213	309
	3,966	**2,855**

9. Promissory notes issued

As of 31 December 2015 and 2014, the Company had issued short-term (mainly 1 year) interest-bearing promissory notes denominated in GEL, EUR and USD:

Currencies	*2015*	*% rate, range*	*2014*	*% rate, range*
USD	174,524	9-12	123,885	9-11
GEL	7,141	11-16	3,795	9-12
EUR	4,271	9-12	1,425	9-11
	185,936		**129,105**	

10. Borrowings

As at 31 December 2015 the Company obtained short term borrowings denominated in GEL from Georgian banks with interest rates ranging from 10% to 16% (2014: from 10% to 14%)

As at 31 December 2015, the borrowings with carrying value of GEL 25,994 (2014: 19,798) are secured by the gold with fair value of GEL 55,585 (2014: 40,547) obtained from borrowers as collateral that the Company has right to re-pledge in absence of default of the customer (Note 6).

(Thousands of Georgian Lari)

11. Income tax

The corporate income tax expense comprises:

	2015	*2014*
Current tax charge	(5,361)	(3,034)
Deferred tax charge/(credit) − origination and reversal of temporary differences	(173)	58
Less: deferred tax recognised in other comprehensive income	391	−
Income tax expense	**(5,143)**	**(2,976)**

Georgian legal entities have to file individual corporate income tax declarations. Standard corporate income tax rate for companies comprised 15% for 2015 and 2014.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2015	*2014*
Profit before tax	**38,964**	**20,249**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**(5,845)**	**(3,037)**
Adjustment to current tax of prior periods	483	−
Tax exempt income	219	61
Income tax expense	**(5,143)**	**(2,976)**

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

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2013	*In the statement of profit or loss*	*In other compre-hensive income*	*2014*	*In the statement of profit or loss*	*In other compre-hensive income*	*2015*
Tax effect of deductible temporary differences							
Allowance for loan impairment	290	204	−	494	(119)	−	375
Intangible assets	−	2	−	2	2	−	4
Loans to customers	−	102	−	102	142	−	244
Promissory notes issued	232	12	−	244	82	−	326
Other assets	−	−	−	−	45	−	45
Deferred tax asset	**522**	**320**	**−**	**842**	**152**	**−**	**994**
Tax effect of taxable temporary differences							
Property and equipment	(1,200)	(262)	−	(1,462)	66	(391)	(1,787)
Deferred tax liability	**(678)**	**58**	**−**	**(620)**	**218**	**(391)**	**(793)**

(Thousands of Georgian Lari)

12. Other liabilities

Other liabilities consisted of the following:

	2015	*2014*
Settlement of foreign exchange transactions	4,674	–
Other liabilities	275	319
	4,949	**319**

13. Equity

Charter capital represents the nominal amount of capital in the founding documentation of the Company and is subject to state registration. As at 31 December 2015, charter capital of the Company amounted to GEL 836 (2014: GEL 836).

Dividends

In accordance with Georgian legislation the Company can distribute dividends from its annual or semi-annual profits.

In 2015, the Company declared and fully paid GEL 1,232 dividends to the shareholder in respect of the profit for the year ended 31 December 2014.

In 2014, the Company declared and fully paid GEL 140 dividends to the shareholder in respect of the profit for the year ended 31 December 2013.

Nature and purpose of revaluation reserve

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Movement of the revaluation reserve can be presents as follow:

At 1 January 2014	**1,045**
Depreciation of revaluation reserve	(44)
At 31 December 2014	**1,001**
Revaluation of buildings	2,609
Tax effect of revaluation of buildings	(391)
Depreciation and transfer of revaluation reserve	(191)
At 31 December 2015	**3,028**

14. Commitments and contingencies

Operating environment

Georgia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

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 of the Company.

(Thousands of Georgian Lari)

14. Commitments and contingencies (continued)

Taxation

The Company's business activity is carried out in the Georgia. Georgian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the authorities. It is possible that transactions and activities of the Company that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

As at 31 December 2015 management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained.

15. Other general and administrative expenses

Other general and administrative expenses comprise:

	2015	*2014*
Advertisement cost	1,684	837
Occupancy and rent	426	380
Communications	406	332
Business trip expense	164	89
Security cost	151	106
Repair and maintenance of property and equipment	126	120
Legal and consulting cost	113	30
Operating taxes	135	100
Office equipment and stationery	93	97
Charity	83	–
Representative expenses	70	77
Bank commission	54	44
Other	288	206
	3,793	**2,418**

16. Risk management

Introduction

Risk is inherent in the Company's activities but it is managed through a process of ongoing identification, measurement and monitoring. This process of risk management is critical to the Company's continuing profitability. Top management is responsible for and is directly involved in most of the risk management activities. The Supervisory Board of the Company takes appropriate risk management decisions (that cover both financial risk described below, and business risks such as changes in the environment, technology and industry) on its regular meetings that are conducted at least twice a month. Formalized risk management process is currently at early stage of development. The Company is exposed mostly to credit risk, liquidity risk and foreign exchange risk. It is also subject to operational risks

(Thousands of Georgian Lari)

16. Risk management (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's maximum exposure to credit risk equals the carrying value of its cash (other than cash on hand), loans issued and receivables.

Credit risks associated with lombard loans is mainly managed by requesting collaterals for the loans. In addition the Company limits and monitors the amount of lombard loans granted to one borrower (maximum GEL 50 thousand) and there are no individual borrowers with significant balance in relation to the total lombard loans balance.

For mortgage loans the requesting person first fills the loan application which is discussed and analysed by the credit department of the Company. If the application is accepted as eligible by the credit department, then the face-to-face interview with the customer is conducted by the Company's director and the chairman of the supervisory board. If the Company's director and the chairman of the supervisory board conclude that the credit risk for this client is at acceptable level then the property subject to mortgage is assessed and the mortgage loan is issued in the amount not exceeding 30% of the property's liquidation value, which is the estimated amount which can be received selling the asset more quickly than it would be for unforced sale to independent willing buyer.

For a lombard loan, if the borrower fails to pay for more than 30 days the Company sends official warning letter to the customer and if the borrower still fails to pay amount due for 60 days, or sometimes for 120 days, then the Company writes-off the loan and sells collateral.

For mortgage loans, the official warning letter is sent if the borrower fails to pay for more than 15 days and the letter is also published in a newspaper. If the borrower fails to pay amounts due on time the Company's personnel contacts the client via phone call or SMS and request to cover the amount. Normally, the Company goes to court requesting sale of collateralized immovable property only when the loan is more than 90 days overdue. Though there are some cases, when the Company tries to re-negotiate loan terms with client to avoid selling mortgaged property. Normally, the courts satisfy the Company's request and the assets are sold to cover the amount owed by borrower to the Company, but often penalties are not covered. Court dealings may take about a year and the enforcement process may take three more months.

The maximum exposure to credit risk for the components of the statement of financial position is best represented by their carrying amounts. 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)

16. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The table below shows the credit quality by class of asset for in the statement of financial position.

31 December 2015	*Notes*	*Neither past due nor impaired* High grade	*Neither past due nor impaired* Not rated	*Past due but not impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	47,672	–	–	**47,672**
Loans to customers	6	–	210,719	11,207	**221,926**
Lombard loans		–	*118,296*	*7,573*	***125,869***
Mortgage loans		–	*92,423*	*3,634*	***96,057***

31 December 2014	*Notes*	*Neither past due nor impaired* High grade	*Neither past due nor impaired* Not rated	*Past due but not impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	6,648	–	–	**6,648**
Restricted cash		6,947	–	–	**6,947**
Loans to customers	6	–	155,901	3,806	**159,707**
Lombard loans		–	*88,896*	*3,409*	***92,305***
Mortgage loans		–	*67,005*	*397*	***67,402***

The Company does not have internal credit rating system to evaluate credit quality of loans to customers that are neither past due nor impaired. The Company keeps cash equivalents in banks that it considers high grade of credit quality.

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below.

Aging analysis of past due but not impaired loans per class of financial assets

31 December 2015	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers					
Lombard loans	3,057	1,734	1,471	1,311	**7,573**
Mortgage loans	3,032	128	196	278	**3,634**
Total	**6,089**	**1,862**	**1,667**	**1,589**	**11,207**

31 December 2014	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers					
Lombard loans	1,765	732	459	453	3,409
Mortgage loans	348	33	16	–	397
Total	**2,113**	**765**	**475**	**453**	**3,806**

See Note 6 for more detailed information with respect to the allowance for impairment of loans to customers.

(Thousands of Georgian Lari)

16. Risk management (continued)

Credit risk (continued)

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the expected cash flows of from groups of assets sharing similar credit risk characteristics, or infringement of the original terms of the contract. The Company assesses allowances only on collective basis as it does not have any individually significant loans.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant. Allowances are evaluated on each reporting date with each portfolio receiving a separate review. The Company identifies groups of loans that share similar credit risk profile based on product, loan currency and number of overdue days.

The collective assessment takes account of impairment that is likely to be present in the portfolio. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the times a loss is likely to have been uncured and the time it will be identified, and expected receipts and recoveries once impaired. The management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Company's overall policy.

Liquidity risk and funding management

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 this risk, management has arranged diversified funding sources in addition to funding base represented by promissory notes, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Company expects that it will be able to refinance or roll-over repayment on the earliest date the Company could be required to pay and the table does not reflect the expected cash flows indicated by the Company's promissory notes refinancing history.

31 December 2015	***Up to 1 year***	***1 to 5 years***	***Total***
Borrowed funds	16,069	13,354	**29,423**
Promissory notes	195,439	–	**195,439**
Other financial liabilities	4,949	–	**4,949**
Total undiscounted financial liabilities	**216,457**	**13,354**	**229,811**

31 December 2014	***Up to 1 year***	***1 to 5 years***	***Total***
Borrowed funds	6,482	13,944	**20,426**
Promissory notes	137,505	–	**137,505**
Other financial liabilities	317	–	**317**
Total undiscounted financial liabilities	**144,304**	**13,944**	**158,248**

(Thousands of Georgian Lari)

16. Risk management (continued)

Market risk

Interest rate risk

Interest rate risk is the risk that market interest rate fluctuations will adversely affect Company's financial position or its financial results.

All loans issued to customers are with fixed interest rates. The Company has significant interest-bearing liabilities which also have fixed interest rates and for most of these liabilities the interest rate is set by the Company. Thus the management believes the Company has no significant exposure to the risk of market interest rate changes.

Currency risk

Foreign currency denominated assets and liabilities give rise to foreign exchange exposure. The management controls currency risk by issuing loans and getting financing in the same currencies.

Included in the next tables are the Company's financial assets and financial liabilities at carrying amounts, categorized by currency (presented in GEL equivalents). Investments in non-monetary assets are not considered to give rise to any material currency risks.

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

31 December 2015	***GEL***	***USD***	***EUR***	***RUB***	***Other***	***Total***
Cash and cash equivalents	8,593	46,573	4,857	6,732	533	**67,288**
Loans to customers	32,166	184,470	2,794	–	–	**219,430**
Other financial assets	643	1,924	663	66	–	**3,296**
Total	**41,402**	**232,967**	**8,314**	**6,798**	**533**	**290,014**
Promissory notes	7,142	174,524	4,270	–	–	**185,936**
Borrowed funds	25,994	–	–	–	–	**25,994**
Other financial liabilities	275	–	–	4,674	–	**4,949**
Total	**33,411**	**174,524**	**4,270**	**4,674**	**–**	**216,879**
Currency position	**7,991**	**58,443**	**4,044**	**2,124**	**533**	**73,135**

31 December 2014	***GEL***	***USD***	***EUR***	***RUB***	***Other***	***Total***
Cash and cash equivalents	12,235	5,977	3,144	–	1,733	**23,089**
Restricted cash	–	–	6,947	–	–	**6,947**
Loans to customers	21,763	132,938	1,712	–	–	**156,413**
Other financial assets	957	486	967	–	110	**2,520**
Total	**34,955**	**139,401**	**12,770**	–	**1,843**	**188,969**
Promissory notes	3,801	123,879	1,425	–	–	**129,105**
Borrowed funds	19,798	–	–	–	–	**19,798**
Other financial liabilities	317	–	–	–	–	**317**
Total	**23,916**	**123,879**	**1,425**	–	**–**	**149,220**
Currency position	**11,039**	**15,522**	**11,345**	–	**1,843**	**39,749**

(Thousands of Georgian Lari)

16. Risk management (continued)

Exchange rate sensitivity analysis

A weakening of the GEL, as indicated below, against the USD, EUR and RUB at 31 December 2015 and 2014 would have increased (decreased) 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.

	2015		*2014*	
Currency	***Change in currency rate in %***	***Effect on profit and equity***	***Change in currency rate in %***	***Effect on profit and equity***
USD	15%/(11%)	7,451/(5,464)	7.01%/(7.01%)	906/(906)
EUR	20%/(16%)	688/(550)	8.64%/(8.64%)	860/(860)
RUB	20%/(30%)	361/(542)		

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company mitigates operational risk mostly by direct involvement of top management in Company's processes and operations, including assess, authorization and reconciliation procedures.

17. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 16 "Risk management" for the Company's contractual undiscounted repayment obligations.

	2015			**2014**		
	Within one year	**More than one year**	**Total**	**Within one year**	**More than one year**	**Total**
Cash and cash equivalents	67,288	–	67,288	23,089	–	**23,089**
Restricted cash	–	–	-	6,947	–	**6,947**
Loans to customers	216,833	2,597	219,430	156,125	288	**156,413**
Property and equipment	–	13,613	13,613	–	10,425	**10,425**
Intangible assets	–	49	49	–	75	**75**
Other assets	3,966	–	3,966	2,855	–	**2,855**
Total	**288,087**	**16,259**	**304,346**	**189,016**	**10,788**	**199,804**
Promissory notes issued	185,936	–	185,936	129,105	–	**129,105**
Borrowed funds	15,128	10,866	25,994	9,781	10,017	**19,798**
Current income tax liabilities	2,529	–	2,529	624	–	**624**
Deferred income tax liabilities	–	793	793	–	620	**620**
Other liabilities	4,949	–	4,949	319	–	**319**
Total	**208,542**	**11,659**	**220,201**	**139,829**	**10,637**	**150,466**
Net	**79,545**	**4,600**	**84,145**	**49,187**	**151**	**49,338**

The table above does not reflect historical pattern of loans to customers and promissory notes issued prolongations, roll-over and refinancing.

(Thousands of Georgian Lari)

18. 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 2015 and 2014, the Company does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

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 property and equipment value at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

		Fair value measurement using		
At 31 December 2015	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***
Assets measured at fair value				
Property and equipment − lands and buildings	31 December 2015	−	−	11,767
Assets and liabilities for which fair values are disclosed				
Cash and cash equivalents	31 December 2015	67,288	−	−
Loans to customers	31 December 2015	−	−	219,634
Other financial assets	31 December 2015	−	3,296	−
Promissory notes issued	31 December 2015	−	188,266	−
Borrowings	31 December 2015	−	25,994	−
Other financial liabilities	31 December 2015	−	4,949	−

(Thousands of Georgian Lari)

18. Fair value measurements (continued)

Fair value hierarchy (continued)

At 31 December 2014	Date of valuation	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value				
Property and equipment − lands and buildings	31 December 2014	−	−	8,416
Assets and liabilities for which fair values are disclosed				
Cash and cash equivalents	31 December 2014	23,089	−	−
Loans to customers	31 December 2014	−	−	156,697
Other financial assets	31 December 2014	−	2,520	−
Promissory notes issued	31 December 2014	−	129,693	−
Borrowings	31 December 2014	−	19,798	−
Other financial liabilities	31 December 2014	−	317	−

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2015			*2014*		
	Carrying value	*Fair value*	*Unrecog-nised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecog-nised gain/(loss)*
Financial assets						
Cash and cash equivalents	67,288	67,288	−	23,089	23,089	−
Loans to customers	219,430	219,634	204	156,413	156,697	284
Other financial assets	3,296	3,296	−	2,520	2,520	−
Financial liabilities						
Promissory notes issued	185,936	188,266	(2,330)	129,105	129,693	(588)
Borrowings	25,994	25,994	−	19,798	19,798	−
Other financial liabilities	4,949	4,949	−	317	317	−
Total unrecognised change in fair value			**(2,126)**			**(304)**

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, due on demand or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

Financial assets and financial liabilities carried at amortized cost

The fair value of loans to customers, promissory notes issued and borrowed funds is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(Thousands of Georgian Lari)

18. Fair value measurements (continued)

Fair value hierarchy (continued)

Description of significant unobservable inputs to valuations of non-financial assets

The following tables show descriptions of significant unobservable inputs to level 3 valuations of properties and revalued properties and equipment as at 31 December 2015:

	Fair value, GEL	Valuation technique	Significant unobservable inputs	Range (weighed average)	Sensitivity of the input of fair value
Land and buildings	**11,767**				
Land	113	Market approach	Price per square meter, in GEL	127-1,894 (977)	Increase (decrease) in the price per square meter would result in increase (decrease) in fair value
Residential Properties 1	2,786	Market approach	Price per square meter, in GEL	690-3,030 (2,383)	Increase (decrease) in the price per square meter would result in increase (decrease) in fair value
Residential Properties 2	534	Income approach	Potential gross annual revenue (in GEL) per sq. m. and capitalization rate	407-407 (407); 13.4%	Increase (decrease) in potential gross annual revenue and decrease (increase) in capitalization rate would result in increase (decrease) in fair value
Commercial Properties 1	991	Market approach	Price per square meter, in GEL	1,294-1,321 (1,311)	Increase (decrease) in the price per square meter would result in increase (decrease) in fair value
Commercial Properties 2	793	Income approach	Potential gross annual revenue (in GEL) per sq. m. and capitalization rate	740-870 (792); 14.4%	Increase (decrease) in potential gross annual revenue and decrease (increase) in capitalization rate would result in increase (decrease) in fair value
Retail Space 1	3,344	Market approach	Price per square meter, in GEL	1,751-5,436 (2,761)	Increase (decrease) in the price per square meter would result in increase (decrease) in fair value
Retail Space 2	3,206	Income approach	Potential gross annual revenue (in GEL) per sq. m. and capitalization rate	386-1,423 (532); 13.4%-15.4% (14.8%)	Increase (decrease) in potential gross annual revenue and decrease (increase) in capitalization rate would result in increase (decrease) in fair value

Reconciliation of carrying value of land and buildings categories in level 3 of fair value hierarchy for the years ended 31 December 2015 and 2014 is presented in Note 7. As at 31 December 2014, the Company concluded, based on overall analysis of Georgian real estate market, that carrying value of its land and buildings does not differ significantly from their fair value. Accordingly, no revaluation of Company's land and buildings was performed as at 31 December 2014.

(Thousands of Georgian Lari)

19. 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.

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

The outstanding balances of related party transactions are as follows:

	2015			*2014*		
	Shareholder	*Key management personnel*	*Other related parties*	*Shareholder*	*Key management personnel*	*Other related parties*
Loans outstanding at 1 January, gross	**47**	**80**	**99**	**44**	**73**	**92**
Loans issued during the year	–	2	–	–	9	–
Loan repayments during the year	(60)	(50)	(60)	–	(8)	–
Other movements	13	27	28	3	6	7
Loans outstanding at 31 December, gross	**–**	**59**	**67**	**47**	**80**	**99**
Less: allowance for impairment at 31 December	–	–	–	–	(5)	(1)
Loans outstanding at 31 December, net	**–**	**59**	**67**	**47**	**75**	**98**
Promissory notes at 1 January	**–**	**1,563**	**282**	**–**	**1,794**	**211**
Promissory notes received during the year	150	10,359	410	–	3,330	263
Promissory notes repaid during the year	(150)	(11,790)	(434)	–	(3,638)	(212)
Other movements	–	276	97	–	76	20
Deposits at 31 December	**–**	**407**	**355**	**–**	**1,563**	**282**

Other related parties are mostly represented by close family members of management and the shareholder.

The income and expense arising from related party transactions are as follows:

	For the year ended 31 December					
	2015			*2014*		
	Shareholder	*Key management personnel*	*Other related parties*	*Shareholder*	*Key management personnel*	*Other related parties*
Interest income on loans	5	11	13	4	9	10
Reversal/(charge) of allowance for loan impairment	–	5	1	–	(4)	1
Interest expense on promissory notes	–	(128)	(46)	–	(163)	(31)
Rent expense	(96)	–	(38)	(96)	–	(26)

Compensation of key management personnel was comprised of the following:

	2015	*2014*
Salaries and other short-term benefits	864	620

(Thousands of Georgian Lari)

20. Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the ratios established by the NBG in supervising the Company.

During the past year, the Company had complied in full with all its externally imposed capital requirements.

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains healthy capital ratios in order to support its business and to maximize shareholders' value.

NBG capital adequacy ratio

The NBG requires qualified credit institutions to maintain a gearing (equity to assets) ratio of 20%. As of 31 December 2015 and 2014, the Company's gearing ratio was as follows:

	2015	*2014*
Equity	84,145	49,338
Assets	304,346	199,804
Equity to assets ratio as 31 December	**28%**	**25%**

21. Events after the reporting period

From 1 January 2016 up to the date of signing these financial statements, GEL appreciated against US dollar by approximately 11%. As at 31 December 2015, the Company had long open currency position in US dollar amounting to GEL 58,443 (Note 16), which resulted in foreign exchange translation loss arising from GEL appreciation recognized in 2016.

By the Law dated 13 May 2016, the amendments with respect to existing regulation of profit tax under the Tax Code of Georgia were enacted and were published on the website of Legislative Herald of Georgia on 1 June 2016. The amendments become effective from 1 January 2017 for all companies except the banks, insurance companies and microfinance organization (including the Company), for which the effective date is 1 January 2019. The existing regulation for levying a profit tax will change and the so-called "tax on distributed profits" model will become effective. In particular, the object of taxation of a resident entity or non-resident's permanent establishment shall be:

a. Distributed profit;
b. Expenses incurred or other payments not related to economic activities;
c. Gratuitous delivery of goods/services or/and transfer of funds;
d. Representation costs that exceed the maximum amount defined by the Tax Code.

As mentioned above, the amendments have already been enacted at the date of issuance of these financial statements but will become effective for the Company only from 1 January 2019.

New legislation is expected to have material impact on the Company's taxes assessed starting from 1 January 2019 and might have impact on amounts of deferred taxes and respective income tax charges as at 31 December 2016 and for the year then ending.