Microfinance Organization Continental City Credit Group

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

MICROFINANCE ORGANISATION CONTINENTAL CITY CREDIT GROUP

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MICROFINANCE ORGANISATION CONTINENTAL CITY CREDIT GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Microfinance Organisation Continental City Credit LLC and its subsidiary (the "Group") as at December 31, 2017, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

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

Management is also responsible for:

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

The consolidated financial statements for the year ended December 31, 2017 were authorized for issue on May 24, 2018 by the Board of Directors of the Group.

On behalf of the Board of Directors:

Giorgi Gogua dze
Chief Executive Officer

May 24, 2018
Tbilisi, Georgia

Indira Tsintskladze
Chief Accountant

May 24, 2018
Tbilisi, Georgia

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Microfinance Organisation Continental City Credit Group:

Opinion

We have audited the consolidated financial statements of Microfinance Organisation Continental City Credit LLC and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "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.

Other Information

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

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

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

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

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

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Deloitte.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

John Robinson
on behalf of Deloitte and Touche LLC

May 24, 2018
Tbilisi, Georgia

MICROFINANCE ORGANISATION CONTINENTAL CITY CREDIT GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017
(in *thousands of Georgian Lari*)

	Notes	December 31, 2017	December 31, 2016
ASSETS:			
Cash and cash equivalents	5	907	2,412
Loans to customers	6	10,589	23,549
Property and equipment	7	284	380
Intangible assets		16	25
Current income tax assets		-	63
Deferred income tax assets	16	979	758
Other assets	8	3,096	2,688
TOTAL ASSETS		**15,871**	**29,875**
LIABILITIES AND EQUITY			
LIABILITIES:			
Borrowed funds	9	7,581	23,105
Current income tax liability		215	1,263
Provisions	10	5,939	-
Other liabilities	11	170	268
Total liabilities		**13,905**	**24,636**
EQUITY:			
Equity attributable to owners of the parent:			
Charter capital	12	8,429	4,800
Accumulated losses		(6,463)	(160)
Total equity attributable to owners of the parent		1,966	4,640
Non-controlling interest		-	599
Total equity		**1,966**	**5,239**
TOTAL LIABILITIES AND EQUITY		**15,871**	**29,875**

On behalf of the Board of Directors:

Giorgi Goguadze
Chief Executive Officer

May 24, 2018

Indira Tsintskladze
Chief Accountant

May 24, 2018

The notes on pages 8-47 form an integral part of these consolidated financial statements

MICROFINANCE ORGANISATION CONTINENTAL CITY CREDIT GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2017
(in *thousands of Georgian Lari*)

	Notes	2017	2016
Interest income	13	7,584	20,779
Interest expense	13	(1,711)	(2,524)
NET INTEREST INCOME BEFORE IMPAIRMENT RECOVERY/(LOSSES) ON INTEREST BEARING ASSETS		**5,873**	**18,255**
Impairment recovery/(losses) on interest bearing assets	6	3,796	(3,312)
NET INTEREST INCOME		**9,669**	**14,943**
Net gain/(loss) on foreign exchange operations		748	(700)
Fee and commission expense		(174)	(101)
Other income	14	288	254
NET NON-INTEREST INCOME/(LOSS)		**862**	**(547)**
OPERATING INCOME		**10,531**	**14,396**
Provisions	10	(5,939)	-
Impairment losses on non-interest bearing financial assets	8	(2,991)	-
Operating expenses	15	(4,725)	(6,862)
(LOSS)/PROFIT BEFORE INCOME TAX		**(3,124)**	**7,534**
Income tax expense	16	(88)	(1,502)
(LOSS)/PROFIT FOR THE YEAR		**(3,212)**	**6,032**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE (LOSS)/INCOME		**(3,212)**	**6,032**
Attributable to:			
Owners of the parent		(2,933)	5,518
Non-controlling interest		(279)	514
TOTAL COMPREHENSIVE INCOME		**(3,212)**	**6,032**

On behalf of the Board of Directors:

Giorgi Goguadze
Chief Executive Officer

May 24, 2018

Indira Tsintskiladze
Chief Accountant

May 24, 2018

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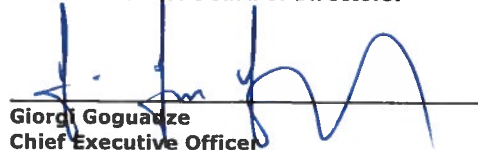
MICROFINANCE ORGANISATION CONTINENTAL CITY CREDIT GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017
(in *thousands of Georgian Lari*)

	Notes	Charter capital	Retained earnings/ (Accumulated losses)	Total equity attributable to owners of the parent	Non-controlling interest	Total Equity
January 1, 2016		**4,800**	**539**	**5,339**	**85**	**5,424**
Total comprehensive income		-	5,518	5,518	514	6,032
Dividends declared		-	(6,217)	(6,217)	-	(6,217)
December 31, 2016		**4,800**	**(160)**	**4,640**	**599**	**5,239**
Total comprehensive income		-	(2,933)	(2,933)	(279)	(3,212)
Conversion of borrowed funds from owner into charter capital	9	3,629	-	3,629	-	3,629
Decrease in non-controlling interest from acquisition of interest in CC Loan LLC		-	160	160	(160)	-
Dividends declared	12	-	(3,530)	(3,530)	(160)	(3,690)
December 31, 2017		**8,429**	**(6,463)**	**1,966**	**-**	**1,966**

On behalf of the Board of Directors:



Giorgi Goguadze
Chief Executive Officer

May 24, 2018

Indira Tsintskiladze
Chief Accountant

May 24, 2018

The notes on pages 8-47 form an integral part of these consolidated financial statements

MICROFINANCE ORGANISATION CONTINENTAL CITY CREDIT GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(in *thousands of Georgian Lari*)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	8,530	18,471
Interest paid	(1,888)	(2,341)
Fee and commission received	(79)	19
Operating expenses paid	(5,370)	(8,706)
Other income received	127	-
Income tax paid	(1,270)	(787)
Cash flows from operating activities before changes in operating assets and liabilities	**50**	**6,656**
Changes in operating assets and liabilities		
Net decrease/(increase) in loans to customers	5,907	(5,903)
Net decrease/(increase) in other assets	115	(60)
Net cash from operating activities	**6,072**	**693**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(90)	(213)
Purchase of intangible assets	(8)	-
Net cash used in investing activities	**(98)**	**(213)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from other borrowed funds	3,960	15,030
Repayment of other borrowed funds	(8,930)	(11,076)
Dividends paid	(2,457)	(6,217)
Net cash used in financing activities	**(7,427)**	**(2,263)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(1,453)**	**(1,783)**
CASH AND CASH EQUIVALENTS, at beginning of the year	**2,412**	**3,966**
Effect of foreign exchange rate changes on cash and cash equivalents	(52)	229
CASH AND CASH EQUIVALENTS, at end of the year	**907**	**2,412**

On behalf of the Board of Directors:

Giorgi Goguadze
Chief Executive Officer

May 24, 2018

Indira Tsintskladze
Chief Accountant

May 24, 2018

The notes on pages 8-47 form an integral part of these consolidated financial statements

1. ORGANISATION

Microfinance Organisation Continental City Credit LLC (the "Company") was incorporated in Georgia on March 6, 2012. The Company is regulated by the National Bank of Georgia (the "NBG") and conducts its business in accordance with the "Georgian law on Microfinance Organisations". The Company possesses a license for microfinance operations from the National Bank of Georgia Number 583 granted on May 5, 2012.

Company's primary business consisted of disbursing mortgage and pawnshop loans. In 2017, the Company started origination of unsecured consumer loans.

The registered office of the Company is located on 23-23a Chavchavadze Avenue, Tbilisi, Georgia.

On August 27, 2014 the Company established a subsidiary CC Loan LLC (the "Subsidiary"). The Subsidiary's primary business was online payday lending to individuals. On November 20, 2017 Microfinance Organisation Continental City Credit LLC purchased the minority interest in CC Loan LLC and merged the Subsidiary with the Company.

As at December 31, 2017 and 2016, 100% immediate owner of the Company was CC Continental City Capital LTD (the "Owner") incorporated in Cyprus.

As at December 31, 2017 and 2016, ultimate individual shareholders having control over the operations of CC Continental City Capital LTD were as follows:

	December 31, 2017	**December 31,2016**
Rati Chelidze	50.00%	50.00%
Vika Bashirov	16.67%	16.67%
Guy Ben-Levy	16.67%	16.67%
David Uzarashvili	16.67%	16.67%
Total	**100%**	**100%**

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

These consolidated financial statements have been prepared assuming that the Group is a going concern and will continue operation for the foreseeable future.

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

These consolidated financial statements have been prepared on the historical cost basis except for the measurement at fair value of certain financial instruments, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

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

The Company and its subsidiary are registered in Georgia and maintain their accounting records in accordance with the Georgian law. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in Note 21.

Functional currency

Items included in the consolidated financial statements are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency").

The functional currency of the Group is the Georgian Lari ("GEL"). The presentational currency of the consolidated financial statements of the Group is the GEL. All values are rounded to the nearest thousand GEL, except when otherwise indicated.

Offsetting

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

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiary. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the consolidated financial statements of subsidiary to bring their accounting policies into line with the Company's accounting policies.

All intra-company liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and other comprehensive income and net assets of subsidiary not owned, directly or indirectly, by the Company.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and consolidated statement of other comprehensive income and within equity in the statement of financial position, separately from parent shareholders' equity.

Changes in ownership interest

Changes in a parent's ownership interest that do not result in a change in control of the subsidiary are accounted for as equity transactions. If the parent maintains control, it recognises no gain or loss in profit or loss upon selling shares of a subsidiary. Similarly, the parent does not record any additional acquisition adjustments to reflect its subsequent purchases of additional shares in a subsidiary if there is no change in control. Instead, the carrying amount of the NCI is adjusted to reflect the change in the NCI's ownership interest in the subsidiary. Any difference between the amount by which the NCI is adjusted and the fair value of the consideration paid or received is recognised in equity and attributed to the equity holders of the parent.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

A merger of equals, in which two entities of approximately equal size combine and share control over the combined entity, is considered a business combination and the acquirer accounts for the transaction using the acquisition method described above.

Revenue recognition

Recognition of interest income and expense

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Recognition of fee and commission income

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

All other commissions are recognized when services are provided.

Financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

Loans and receivables

Loans and receivables (including due from financial institutions, loans to customers and other financial assets) that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment

is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans and receivables

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of profit or loss in the period of recovery.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities

Financial liabilities are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other

premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and cash in bank with original maturity of less or equal to 90 days.

Repossessed assets

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

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

Property and equipment

Initial cost of property and equipment is assessed based on actual expenses for their acquisition that comprise purchase price, including non-refundable purchase taxes and any directly attributed costs of bringing the assets to its working condition and location for intended use. Subsequent to initial recognition property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Computers	25%
Furniture and office fixtures	25%
Vehicles	20%
Leasehold improvements	20-30%
Other	25%

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

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

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization

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

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss and other comprehensive income when the asset is derecognized.

Impairment of non-financial assets other than goodwill

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

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

Current tax

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

On May 13, 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force

in 2016 and is effective for tax periods starting after January 1, 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from January 1, 2019.

Deferred tax

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

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

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

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

Operating taxes

Georgia also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

Provisions

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

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

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

Foreign currencies

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

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

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

Collateral

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

Going Concern

The Management of the Group has prepared these consolidated financial statements on a going concern basis. In making this judgement the management considered the Group's financial position, current intentions, profitability of operations and access to financial resources.

The Group's loss for the year ended December 31, 2017 amounted to GEL 3,212 thousand, interest income reduced by 63% and loan portfolio decreased by 55%. The scaling down the Group's operations was in response of changes in the legislation introduced by the National Bank of Georgia. On January 15, 2017 the National Bank of Georgia introduced upper caps of 100% on effective interest rate on loans to customers and 150% on cumulative commissions and penalties on principal amount of loans to customers. Introduction of such restrictions significantly impacted on the profitability of online payday lending activities of the Group. However, the Management of the Group has undertaken all necessary actions in order to enable the Group to continue as a going concern. Such actions included the following:

- Since March 2017, the Group introduced stricter underwriting policies to ensure disbursement of loans to the higher credit quality borrowers. Such an action resulted in reduction in portfolio volume but increase in credit quality.
- As disclosed in Note 10, during the year 2017, the Group sold past-due payday loans to external debt collection company to avoid significant collection costs of doubtful loans and comply penalty restrictions set by the National Bank of Georgia. As described in Note 10, sales of doubtful portfolio resulted in recognition of additional provisions in the amount of GEL 5,939 thousand that caused operating losses during the year 2017. To address this issue, the Management of the Group renegotiated its lending arrangements with the Parent by settling borrowings through increasing charter capital.
- On November 20, 2017, the Management of the Group merged its subsidiary CC Loan LLC to Microfinance Organisation Continental City Credit LLC to improve operational efficiency and optimize cost structure of the Group.
- In May 2017, the Group launched new product "Consumer Loans" and expects replace online payday loans by higher credit quality product.
- As disclosed in Note 22, subsequent to the year end, the Management and the Owner of the Group, decided to cease further disbursement of payday loans and concentrate its resources on collections from existing customers and growth in consumers and mortgage loans. Up to the date of these consolidated financial statements the Group managed to collect 31% of its outstanding payday loans portfolio as at December 31, 2017.
- The Group's operations and activities are supported by the Owner of the Group. As disclosed in Note 22, subsequent to the year end, the Owner of the Group funded the Group by the amount of GEL 6,855 thousand with equity settlement option that demonstrates Owner's willingness to provide financial support to the Company.

The Management of the Group is confident that following the adoption of internal policies and above explained actions in response of external regulation by the National Bank of Georgia, the Group will be able to continue as a going concern in the foreseeable future.

Impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its consolidated financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and 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. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Georgia and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Useful lives of property and equipment and intangible assets

As described above, the Group reviews the estimated useful lives of property and equipment and intangible assets at the end of each annual reporting period. In determining the useful life of an asset, the management considers expected usage, estimated technical obsolescence, physical wear and tear, and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation/amortisation rates. During the financial year, the Group's management has not changed useful lives of its property and equipment and intangible assets.

Utilization of deferred tax balances

As described in Note 2, on May 13, 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia effective from January 1, 2019, for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops and from January 1, 2017 for other entities. The new code impacts the recognition and measurement principles of the Group's income tax and it also affects the Group's deferred income tax assets/liabilities.

The management of the Group estimated non-utilizable deferred tax assets/liabilities balances at the reporting date before the effective date of the law. The carrying value of utilizable deferred tax assets amounted to GEL 979 thousand and GEL 758 thousand as at December 31, 2017 and 2016, respectively.

Valuation of repossessed assets.

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

The valuation was carried out by an independent firm of valuators which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach/method due to the market situation, namely by existence of a sufficient number of registered sales and proposals by the date of valuation.

Initial recognition of related party transactions

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. The information on related party balances is disclosed in Note 18.

Provisions

Provisions recognized in the consolidated statement of financial position represents a present constructive obligation related to the probable termination of loans Sales Agreements with debt collection company. The Group's management committed and were certain before year end that this cancelation would occur and this would result in outflow of the resources through the recognition of the borrowed funds transferred as a part of loans sale terms. A reliable estimate of the amount of the obligation can be made and evidenced by subsequent to the reporting date events (See Note 22). The information on these loans Sales Agreements and related provisions recognised is disclosed in Note 10.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

Amendments to IFRSs affecting amounts reported in the consolidated financial statements. In the current year, the following new and revised Standards and Interpretations have been adopted:

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

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

Amendments to IAS 7 Disclosure Initiative. The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowed funds (Note 9). Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. The application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses. The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

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

Annual Improvements to IFRSs – 2012-2014 Cycle. The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group (see the list of new and revised IFRSs in issue but not yet effective below).

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

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

New and revised IFRSs in issue but not yet effective.

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

- IFRS 9 Financial Instruments[1];
- IFRS 15 Revenue from Contracts with Customers (and the related Clarifications)[1];
- IFRS 16 Leases[2]
- IFRS 17 Insurance Contracts[3];
- IFRIC 22 Foreign Currency Transactions and Advance Consideration[1];
- IFRIC 23 Uncertainty Over Income Tax Treatments[2];
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions[1];

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

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

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

IFRS 9 Financial Instruments. IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

  Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.
- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss

model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.

- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The standard is effective from January 1, 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

Classification and measurement. Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, all financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under IAS 39.

Impairment. With the exception of POCI financial assets, ECLs will be measured through a loss allowance at an amount equal to:

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

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

To incorporate forward-looking macroeconomic information in the ECL assessment, the Bank will analyse default dependency on macroeconomic variables such as gross domestic product, inflation, unemployment rate, real estate prices and currency index. Forecasted macroeconomic variables and the scenarios along with probability of occurrence of such a scenario will be taken from the National Bank of Georgia's publication.

Management of the Group anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items. However, until reliable estimates of the impact are available, further information on the expected impact on the financial position of the Bank cannot be provided.

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

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

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

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

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

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses. The amendments clarify the following:

1. Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;
2. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;
3. The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
4. In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply retrospectively for annual periods beginning on or January 1, 2017 with earlier application permitted. The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration. The Interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the prepayment or liability in respect of the income received in advance was recognised. If there is more than one advance payment or receipt the date of the transaction for each payment of receipt of advance consideration should be determined. The amendments apply to annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities may elect to apply amendments either retrospectively or prospectively.

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

Annual Improvements to IFRSs 2014-2016 Cycle. This annual improvement package amended three standards:

The Amendments to IFRS 1 delete the short-term exemptions that related to disclosures about financial instruments, employee benefits and investment entities as the reporting period to which the exemptions applied have already passed and as such, these exemptions are no longer applicable. The amendments are effective for annual periods beginning on or after January 1, 2018.

The amendments to IFRS 12 clarify that concession from the requirement to provide summarised financial information in respect of interests in subsidiaries, associates or joint ventures classified as held for sale or included in a disposal group is the only concession available for such interests. The amendments apply retrospectively and are effective for annual periods beginning on or after January 1, 2017.

In accordance with IAS 28, a venture capital organisation and other similar entities may elect to measure investments in associates and joint ventures at FVTPL. In addition, an entity that is not an investment entity but has an interest in an associate or joint venture that is an investment entity, may, when applying the equity method, elect to retain the fair value measurement applied by that associate or joint venture to its own interests in subsidiaries. Amendments to IAS 28 clarify that such election should be made separately for each associate or joint venture at initial recognition. The amendments apply retrospectively and are effective for annual periods beginning on or after January 1, 2018. Early application is permitted.

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

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

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

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

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

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

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

5. CASH AND CASH EQUIVALENTS

	December 31, 2017	December 31, 2016
Cash on hand	39	36
Balances with banks with original maturity up to 90 days	868	2,376
Total cash and cash equivalents	**907**	**2,412**

Balances with banks are neither past due nor impaired. Bank balances include current accounts at banks in Georgia and are used for the purpose of the daily activities of the Group.

6. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2017	December 31, 2016
Originated loans to customers	11,730	26,602
Accrued interest	705	2,599
	12,435	**29,201**
Less allowance for impairment losses	(1,846)	(5,652)
Total loans to customers	**10,589**	**23,549**

Loans to customers comprise the following products:

	December 31, 2017	December 31, 2016
Mortgage loans	6,802	11,453
Payday loans	3,277	17,097
Consumer loans	1,519	-
Pawnshop loans	837	651
	12,435	**29,201**
Less allowance for impairment losses	(1,846)	(5,652)
Total loans to customers	**10,589**	**23,549**

The table below summarizes carrying value of loans to customers analyzed by type of collateral obtained by the Group:

	December 31, 2017	December 31, 2016
Loans collateralized by pledge of real estate	6,801	11,453
Unsecured loans	4,796	17,097
Other collateral	838	651
Less allowance for impairment losses	(1,846)	(5,652)
Total loans to customers	**10,589**	**23,549**

During the years ended December 31, 2017 and 2016 the Group received non-financial assets by taking possession of collateral it held as security. As at December 31, 2017 and 2016 such assets in the amount of GEL 1,748 and GEL 1,703 (See Note 8), respectively, are included in other assets.

Analysis by credit quality of loans to customers outstanding as at December 31, 2017 and 2016 was as follows:

As at December 31, 2017	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Mortgage loans				
Not past due	1,887	(11)	1,876	0.6%
Overdue:				
up to 30 days	538	-	538	0%
31 to 60 days	77	-	77	0%
61 to 90 days	23	-	23	0%
91 to 180 days	94	(8)	86	8.5%
over 180 days	4,183	(979)	3,204	23.4%
Total mortgage loans	**6,802**	**(998)**	**5,804**	**14.7%**
Consumer loans				
Not past due	1,472	(22)	1,450	1.5%
Overdue:				
up to 30 days	35	(2)	33	5.7%
31 to 60 days	1	-	1	-
61 to 90 days	2	(2)	-	100%
91 to 180 days	5	(5)	-	100%
over 180 days	4	(4)	-	100%
Total Consumer loans	**1,519**	**(35)**	**1,484**	**2.3%**
Pawnshop loans				
Not past due	813	(12)	801	1.5%
Overdue:				
up to 30 days	-	-	-	-
31 to 60 days	-	-	-	-
61 to 90 days	-	-	-	-
91 to 180 days	-	-	-	-
over 180 days	24	(24)	-	100%
Total pawnshop loans	**837**	**(36)**	**801**	**4.3%**
Payday loans				
Not past due	2,496	(235)	2,261	9.4%
Overdue:				
up to 30 days	347	(146)	201	42.1%
31 to 60 days	123	(98)	25	79.7%
61 to 90 days	74	(66)	8	89.2%
91 to 180 days	214	(209)	5	97.7%
over 180 days	23	(23)	-	100.0%
Total payday loans	**3,277**	**(777)**	**2,500**	**23.7%**
Total loans to customers	**12,435**	**(1,846)**	**10,589**	**14.8%**

As at December 31, 2016	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Mortgage loans				
Not past due	3,427	(207)	3,220	6.0%
Overdue:				
up to 30 days	1,190	(72)	1,118	6.0%
31 to 60 days	333	(20)	313	6.0%
61 to 90 days	2,215	(134)	2,081	6.0%
91 to 180 days	903	(55)	848	6.0%
over 180 days	3,385	(205)	3,180	6.0%
Total mortgage loans	**11,453**	**(693)**	**10,760**	**6.0%**
Pawnshop loans				
Not past due	607	(26)	581	4.2%
Overdue:				
up to 30 days	11	(3)	8	27.2%
31 to 60 days	-	-	-	-
61 to 90 days	-	-	-	-
91 to 180 days	-	-	-	-
over 180 days	33	(7)	26	21.2%
Total pawnshop loans	**651**	**(36)**	**615**	**5.5%**
Payday loans				
Not past due				
Overdue:	7,027	(240)	6,787	3.4%
up to 30 days	1,396	(268)	1,128	19.2%
31 to 60 days	930	(285)	645	30.6%
61 to 90 days	2,580	(986)	1,594	38.2%
91 to 180 days	3,895	(1,875)	2,020	48.1%
over 180 days	1,269	(1,269)	-	100%
Total payday loans	**17,097**	**(4,923)**	**12,174**	**28.7%**
Total loans to customers	**29,201**	**(5,652)**	**23,549**	**19.3%**

The Group's policy for credit risk management purposes is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The primary factors by which the Group considers a loan as impaired are: overdue status of loan and fair value of related collateral. Details of credit risk assessment methodology are described in Note 21.

The movements in allowance for impairment losses on loans to customers were as follows:

	Loans to customers
January 1, 2016	**(2,355)**
Provisions	(3,312)
December 31, 2016	**(5,652)**
Provisions	(706)
Recovery of provisions on loans disposal (Note 10)	4,502
December 31, 2017	**(1,847)**

As at December 31, 2017 and 2016 the Group had no exposure which individually exceeded 10% of the Group's equity.

As at December 31, 2017 and 2016, 100% of the loans are granted to Georgian nationals, which represents a significant geographical concentration in one region.

As at December 31, 2017 and 2016 carrying value of loans to customers included loans totaling GEL 6,834 thousand and GEL 3,417 thousand respectively, whose terms were renegotiated.

7. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Computers	Vehicles	Furniture and office equipment	Leasehold improvements	Other	Total
At cost						
January 1, 2016	**182**	**173**	**117**	**219**	**96**	**787**
Additions	33	221	2	15	-	271
Disposals	(63)	(61)	(57)	-	(3)	(184)
December 31, 2016	**152**	**333**	**62**	**234**	**93**	**874**
Additions	26	62	2	-	-	90
Disposals	(19)	-	(3)	(59)	-	(81)
December 31, 2017	**159**	**395**	**61**	**175**	**93**	**883**
Accumulated depreciation						
January 1, 2016	**62**	**56**	**43**	**127**	**75**	**363**
Depreciation charge	25	61	13	54	12	165
Eliminated on disposals	(8)	(15)	(8)	-	(3)	(34)
December 31, 2016	**79**	**102**	**48**	**181**	**84**	**494**
Depreciation charge	32	76	9	53	6	176
Eliminated on disposals	(9)	-	(3)	(59)	-	(71)
December 31, 2017	**102**	**178**	**54**	**175**	**90**	**599**
Net book value						
As at December 31, 2016	**73**	**231**	**14**	**53**	**9**	**380**
As at December 31, 2017	**57**	**217**	**7**	**-**	**3**	**284**

As at December 31, 2017 and 2016 included in property and equipment were fully depreciated assets totaling GEL 385 and GEL 86 respectively.

8. OTHER ASSETS

Other assets comprise:

	December 31, 2017	December 31, 2016
Other financial assets:		
Accounts receivable	3,919	527
Allowance for impairment loss	(2,991)	-
Total other financial assets	**928**	**527**
Other non-financial assets:		
Repossessed assets	1,748	1,703
Investment property	347	357
Advances paid	70	46
Other	3	55
Total other non-financial assets	**2,168**	**2,161**
Total other assets	**3,096**	**2,688**

As at December 31, 2017, receivables from FINSEC LLC in the amount of GEL 3,776 thousand are included in accounts receivables. Receivables from FINSEC LLC represents past due and impaired financial asset as at December 31, 2017.

The movements in allowance for impairment losses on other financial assets were as follows:

	Other financial assets
December 31, 2016	-
Impairment losses/provisions	(2,991)
December 31, 2017	**(2,991)**

Repossessed assets as at December 31, 2017 and 2016 include land and buildings in the amount of GEL 1,748 and GEL 1,703, respectively, which are measured at the lower of its carrying amount and fair value less cost to sell.

As at December 31, 2017 and 2016, repossessed assets totaling GEL 500 thousand, were pledged as collateral under loans received from financial institutions.

9. BORROWED FUNDS

Borrowed funds comprise:

	December 31, 2017	December 31, 2016
Non-current borrowed funds		
Secured loans from financial institutions	1,063	1,431
Unsecured loans from individuals	-	2,092
Total non-current borrowed funds	**1,063**	**3,523**
Current borrowed funds		
Unsecured loans from individuals	6,337	11,516
Secured loans from financial institutions	181	264
Unsecured loans from related parties	-	7,802
Total Current borrowed funds	**6,518**	**19,582**
Total borrowed funds	**7,581**	**23,105**

On December 31, 2017, the Owner of the Company made a decision to settle loans disbursed to the Company in the amount of GEL 3,629 thousand by increasing charter capital of the Company.

As at December 31, 2017, terms and conditions of outstanding borrowed funds were as follows:

	Currency	Nominal interest-rate	Year of maturity	December 31, 2017
Unsecured loans from individuals	USD	7%-13%	On Demand	6,337
Secured loans from financial institutions	USD	9%-10%	2017-2021	1,244
Total borrowed funds				**7,581**

As at December 31, 2016, terms and conditions of outstanding borrowed funds were as follows:

	Currency	Nominal interest-rate	Year of maturity	December 31, 2016
Unsecured loans from individuals	USD	9%-13%	On Demand	13,549
Unsecured loans from individuals	EUR	9%	On demand	99
Unsecured loans from related parties	USD	12%-14%	On Demand	7,762
Secured loans from financial institutions	USD	9%-10%	2017-2021	1,695
Total borrowed funds				**23,105**

On demand borrowed funds are subject to 1-30 days notice.

The table below details changes in the Group's other borrowed funds arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	January 1, 2017	Financing cash outflows	Settlement of dividends payable through borrowed funds	Settlement through equity	Borrowed funds transferred to another party	Interest accrual during the year 2017	Interest paid during the year 2017	Foreign exchange gain during the year 2017	December 31, 2017
Borrowed funds	23,105	(4,970)	1,233	(3,629)	(6,545)	1,711	(1,888)	(1,436)	**7,581**

10. PROVISIONS

As described earlier in Note 3, on January 15, 2017 the National Bank of Georgia introduced upper caps of 100% on effective interest rate on loans to customers and 150% on cumulative commissions and penalties on principal amount of loans to customers. Introduction of such restrictions significantly impacted on the online payday lending activities of the Group. Management of the Group, decided to enhance its loans underwriting policies and to dispose past-due loan portfolio in order to increase quality of loan portfolio.

Changes in the legislative framework raised opportunities for debt collection companies. On this basis, FINSEC LLC was incorporated in July, 2017 by the experts in debt collection industry. The Management of the Group approached to the owners and management of FINSEC LLC to negotiate past-due loan portfolio selling transaction and take over the collections activity from the Group. At the same time, FINSEC LLC had similar negotiations with other payday lenders in order to efficiently manage the recovery costs.

On July 9, 2017, CC Loan LLC formed two agreements ("Sales Agreement") with FINSEC LLC for the sale of the part of its doubtful loan portfolio. The total consideration negotiated for the assets sold amounted to GEL 10,083 thousand which was equivalent to the gross carrying value of the loans sold. As at the date of sale, the net carrying value of the sold loans amounted to GEL 5,581 thousand. GEL 4,502 thousand, the difference between sales price and the net carrying value, was recorded as a recovery of impairment losses (See Note 6).

Under the Sales Agreement N1, the Group sold loan portfolio with the gross carrying value of GEL 8,428 thousand for a consideration of equaling to the same amount. Consideration receivable were split into the following streams: in exchange of the loans, FINSEC LLC assumed liabilities (borrowed funds of the Group) in the amount of GEL 7,851 thousand ("Non-Cash Consideration") and the remaining consideration in the amount of GEL 577 thousand ("Cash Consideration") repayable within 5 months from the date of the Sales Agreement N1.

Under the Sales Agreement N2, the Group sold a loan portfolio with the gross carrying value of GEL 1,655 thousand for a consideration of equaling to the same amount. Consideration receivable was repayable within 12 months from the date of the Sales Agreement N2.

In September, 2017 the Group formed additional Sales Agreement N3 to sell gross loan portfolio amounting to GEL 221 thousand for the same amount of cash consideration to be received.

On December 31, 2017, the Group amended terms of the Sales Agreement N1 that resulted in a reduction of Non-Cash Consideration from GEL 7,851 thousand to GEL 6,545 thousand with respective increase in Cash Consideration receivable. The Group as a result of change in terms of the Sales Agreement N1, recognized transferred liabilities in the amount GEL 1,306 thousand as borrowed funds in the consolidated statement of financial position.

The Group's management considered, the renegotiation of Sales Agreements as an impairment trigger and recognised GEL 2,991 thousand as an impairment allowance on receivables from FINSEC LLC (See Note 8).

As described in Note 21, subsequent to the year end, both of the Sales Agreements were terminated on the grounds of non-market pricing of the sold loan portfolio due to overestimation of expected recovery rates. The Group's management before the year end committed and were certain that cancelation of Sales Agreements would occur and recognised provision for obligation, the difference between re-estimated market price and the initially agreed price of the loans, in the amount of GEL 5,939 thousand through profit or loss.

The movements in provisions were as follows:

	Other assets	Other provisions
December 31, 2016	-	-
Impairment losses/provisions	(2,991)	(5,939)
December 31, 2017	**(2,991)**	**(5,939)**

11. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2017	December 31, 2016
Other financial liabilities:		
Accounts payable	170	171
Bonuses payable	-	97
Total other financial liabilities	**170**	**268**
Total other liabilities	**170**	**268**

12. CHARTER CAPITAL AND RESERVES

As at December 31, 2017 and 2016 the Company's total paid in charter capital, respectively was GEL 8,429 thousand and GEL 4,800 thousand.

As described in Note 9, on December 31, 2017, the Owner of the Company made a decision to settle certain borrowed funds in the amount of GEL 3,629 by increasing charter capital of the Company.

The owners of the Company are entitled to receive dividends as declared from time to time and at the shareholders meetings of the Company.

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

Based on shareholders decision dated June 20, 2017 and May 20, 2016, respectively dividends of GEL 6,217 thousand and GEL 3,690 thousand, were declared and settled.

13. NET INTEREST INCOME

	December 31, 2017	December 31, 2016
Interest income comprises:		
Financial assets recorded at amortized cost:		
Impaired financial assets	2,285	14,066
Unimpaired financial assets	5,299	6,713
Total interest income	**7,584**	**20,779**
Interest income comprises:		
Loans to customers	7,558	20,730
Due from financial institutions	26	49
Total interest income on financial assets recorded at amortized cost	**7,584**	**20,779**
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	(1,711)	(2,524)
Total interest expense	**(1,711)**	**(2,524)**
Interest expense comprise:		
Borrowed funds	(1,711)	(2,524)
Total interest expense on financial liabilities recorded at amortized cost	**(1,711)**	**(2,524)**
Net interest income before impairment losses/(recovery) on interest bearing assets	**5,873**	**18,255**

14. OTHER INCOME

	2017	2016
Income from operating lease	88	85
Other income	200	169
Total operating expenses	**288**	**254**

15. OPERATING EXPENSES

Operating expenses comprise:

	2017	2016
Staff costs	2,797	3,609
Rent	443	508
Professional expenses	272	146
Depreciation and amortization	193	187
Marketing and advertising	188	1,382
Utilities and Communication	156	289
Other expenses	676	741
Total operating expenses	**4,725**	**6,862**

16. INCOME TAXES

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences mostly relate to different methods of income and expense recognition as well as to recorded values of certain assets and liabilities.

The tax rate used for the reconciliations below is the corporate tax rate of 15% payable by corporate entities in Georgia on taxable profits under tax law in that jurisdiction.

Deferred income tax assets/(liabilities) on temporary differences as at December 31, 2017 and 2016 comprise:

	December 31, 2017	December 31, 2016
Loans to customers	245	854
Property and equipment	(33)	(30)
Intangible assets	15	5
Borrowings	3	-
Other assets	397	-
Other liabilities	(6)	(71)
Provisions	891	-
Deferred income tax asset	**1,511**	**758**
Derecognised deferred tax balances	(533)	-
Net deferred tax asset	**979**	**758**

Relationships between tax expenses and accounting profit for the years ended December 31, 2017 and 2016 are explained as follows:

	2017	2016
(Loss)/profit before income tax	(3,124)	7,534
Tax at the statutory tax rate (15%)	(469)	1,130
Effect of changes in tax regulation	533	-
Permanent differences	24	372
Income tax expense	**88**	**1,502**
Current income tax expense	309	1,945
Deferred income tax benefit	(221)	(443)
Income tax expense	**88**	**1,502**

	2017	2016
As at January 1 – deferred income tax asset	**758**	**315**
Deferred income tax benefit recognized in profit or loss	221	443
As at December 31- deferred income tax assets	**979**	**758**

In June 2016 the Georgian parliament adopted and the president signed into changes to the corporate tax code, with changes applicable for financial institutions on January 1, 2019. The code is applicable for Georgian companies and permanent establishments ("PEs") of resident companies, apart from certain financial institutions and insurance companies.

The change has had an impact on deferred tax of the Companies as it abolishes temporary differences between carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Due to the changes of the tax legislation balance of deferred tax attributable to previously recognized temporary differences arising from prior periods should be fully written off till January 1, 2019.

As at December 31, 2017 non-utilisable net deferred tax asset amounted to GEL 533 thousand.

17. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with on-balance sheet risk in order to meet the needs of their counterparties. These instruments, involving varying degrees of credit risk, are reflected in the consolidated statement of financial position.

Capital commitments – The Group had no material commitments for capital expenditures outstanding as at December 31, 2017 and 2016.

Operating lease commitments – No material rental commitments were outstanding as at December 31, 2017 and 2016.

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation – Commercial legislation of Georgia, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Georgian transfer pricing legislation was amended starting from January 1, 2015 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. The impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

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

For the last two years Georgia has experienced a number of legislative changes, which have been largely related to Georgia's accession plan to the European Union. Whilst the legislative changes

implemented during 2016 and 2017 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

18. TRANSACTIONS WITH RELATED PARTIES

Related parties include owners and entities under common ownership and control with the Group and members of key management personnel.

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following balances and transactions with related parties:

	December 31, 2017		December 31, 2016	
	Related party balances	**Total category as per the consolidated financial statements caption**	**Related party balances**	**Total category as per the consolidated financial statements caption**
Loans to customers	-	12,435	56	29,201
- *other related parties*	-		56	
Allowance for impairment losses on loans to customers	-	(1,846)	-	(5,652)
- *other related parties*	-		-	
Borrowed funds	-	7,581	7,802	23,155
- owners	-		6,245	
- Key management personnel	-		198	
- *other related parties*	-		1,359	

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

	December 31, 2017		December 31, 2016	
	Related party transactions	**Total category as per the consolidated financial statements caption**	**Related party transactions**	**Total category as per the consolidated financial statements caption**
Key management personnel compensation:				
- *short-term employee benefits*	798	2,893	840	3,609

Included in the consolidated statement of profit or loss for the years ended December 31, 2017 and 2016 are the following amounts which were recognized in transactions with related parties:

	December 31, 2017		December 31, 2016	
	Related party transactions	Total category as per the consolidated financial statements caption	Related party transactions	Total category as per the consolidated financial statements caption
Interest income	-	7,584	4	20,896
- other related parties	-		4	
Interest expense	(236)	(1,711)	(835)	(2,524)
- owners	(236)		(665)	
- Key management personnel	-		(21)	
- other related parties	-		(149)	

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

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

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

- discount rates of 19%-36% are used for discounting future cash flows from loans to customers;
- discount rates of 10%-14% are used for discounting future cash flows from loans and borrowings.

The Group estimated the fair value of loans to customers and borrowed funds and due to relatively short-term lifetime of the instruments carrying values approximated to fair value.

	Fair Value	December 31, 2017		December 31, 2016	
	Hierarchy	Carrying value	Fair value	Carrying value	Fair value
Loans to customers	3	10,589	10,589	23,549	23,549
Borrowed funds	3	7,581	7,581	23,105	23,105

20. CAPITAL MANAGEMENT

The Group's objectives when maintaining capital are:

- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for Owner; and
- To provide an adequate return to Owner by pricing services commensurately with the level of risk.

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

The Group is in compliance with minimum statutory capital requirements of National Bank of Georgia – the minimum cash contribution in the equity should not be less then GEL 250 thousand.

21. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to the following:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk;

To enable and apply high-performance risk policies, the Group has established a risk management framework, whose main purpose is to protect the Group from unacceptable level of risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Committees and the Group's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Risk Management Department of Head Office. Daily risk management is performed by the Heads of Credit Departments.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Limits on

the level of credit risk by a borrower are approved by the Management Board. Actual exposures against limits are monitored on a regular basis.

Credit risk assessment

The Group uses a collective assessment approach in determining the loan loss provision required at any reporting date.

The collectively assessed loans are grouped based on similar credit risk characteristics and on their past-due status. The collectively assessed methodology strives to ensure the loan loss provisions reflects the loss events that have occurred, but have not yet been identified on an individual loan basis.

The process uses a combination of historical data and current observable data that reflects the existing circumstances and how it may affect the current loan portfolio. This set of combined data is a basis for the management for setting the provision rates.

In order to calculate impairment allowance for collectively assessed loans the Group estimates the following risk parameters: Probability of Default ("PD") and Loss Given Default ("LGD).

Default is defined using the delinquency status of the loans unless other qualitative indicators of inability to repay provides objective evidence of impairment.

Assessment of Probability of Default ("PD") is performed using roll rates approach. PD is calculated using time-series data pulled out from the operational loan database. Observation period to estimate roll rates to higher risk category is 36 months.

Methodology for loans with impairment trigger events assumes that default occurred and Loss Given Default ("LGD") is estimated that reflects discounted cash flows that may result from foreclosure less costs for obtaining and selling the collateral. Cash flows that may result from foreclosure of the collateral is dependent on the fair value of the collateral and applied valuation and liquidity haircuts per each type of collateral. There are three key types of collateral used in the cash flows estimation:

- Residential real estate;
- Commercial real estate;
- Movable property;

Estimated future cash flows that may result from foreclosure of collateral less costs for obtaining and selling the collateral is discounted using the original effective interest rate of the loan over the expected time to sell period.

LGD for unsecured defaulted loans assumed to equal to 100%.

Time to sell period is dependent on the type of collaterals and represents management's best estimate of expected period to sell the collateral since the default date.

For the purpose of risk parameters estimation, loan portfolio is segmented into the overdue buckets ("risk category") per each loan products (consumer, mortgage, payday and pawnshop).

Maximum exposure of credit risk

The following table presents the maximum exposure to credit risk of financial assets. The maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral.

	December 31, 2017	December 31, 2016
Cash and cash equivalents	907	2,412
Loans to customers	10,589	23,549
Other financial assets	928	527

Collateral

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 mortgages over residential properties or other assets. 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 impairment losses.

Liquidity risk

Liquidity risk management

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

The Management board controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows.

Further is analysis of liquidity and interest rate risks:

(a) term to maturity of financial liabilities, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Group will be liable to redeem the liability;
(b) estimated term till maturity of financial assets, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Group expects that cash flows will be received in the different time.

An analysis of the liquidity by classes of financial assets and financial liabilities, and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2017 Total
FINANCIAL ASSETS						
Cash and cash equivalents	388	-	-	-	-	388
Loans to customers	5,869	687	2,624	1,409	-	10,589
Total interest bearing financial assets	**6,257**	**687**	**2,624**	**1,409**	**-**	**10,977**
Cash and cash equivalents	519	-	-	-	-	519
Other financial assets	84	59	785	-	-	928
Total non-interest bearing financial assets	**603**	**59**	**785**	**-**	**-**	**1,447**
Total financial assets	**6,860**	**746**	**3,409**	**1,409**	**-**	**12,424**
FINANCIAL LIABILITIES						
Borrowed funds	2,754	366	3,398	864	199	7,581
Total interest bearing financial liabilities	**2,754**	**366**	**3,398**	**864**	**199**	**7,581**
Other financial liabilities	170	-	-	-	-	170
Total non-interest bearing financial liabilities	**170**	**-**	**-**	**-**	**-**	**170**
Total financial liabilities	**2,924**	**366**	**3,398**	**864**	**199**	**7,751**
Interest sensitivity gap	3,503	321	(774)	545	(199)	
Cumulative interest sensitivity gap	**3,503**	**3,824**	**3,050**	**3,595**	**3,396**	
Liquidity gap	3,936	380	11	545	(199)	
Cumulative liquidity gap	**3,936**	**4,316**	**4,327**	**4,864**	**4,673**	

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2016 Total
FINANCIAL ASSETS						
Cash and cash equivalents	1,504	-	-	-	-	1,504
Loans to customers	15,579	1,521	3,116	3,333	-	23,549
Total interest bearing financial assets	**17,083**	**1,521**	**3,116**	**3,333**	**-**	**25,053**
Cash and cash equivalents	908	-	-	-	-	908
Other financial assets	527	-	-	-	-	527
Total non-interest bearing financial assets	**1,435**	**-**	**-**	**-**	**-**	**1,435**
Total financial assets	**18,518**	**1,521**	**3,116**	**3,333**	**-**	**26,488**
FINANCIAL LIABILITIES						
Borrowed funds	5,254	751	13,577	3,523	-	23,105
Total interest bearing financial liabilities	**5,254**	**751**	**13,577**	**3,523**	**-**	**23,105**
Other financial liabilities	268	-	-	-	-	268
Total non-interest bearing financial liabilities	**268**	**-**	**-**	**-**	**-**	**268**
Total financial liabilities	**5,522**	**751**	**13,577**	**3,523**	**-**	**23,373**
Interest sensitivity gap	**11,829**	**770**	**(10,461)**	**(190)**	**-**	
Cumulative interest sensitivity gap	**11,829**	**12,599**	**2,138**	**1,948**		
Liquidity gap	**12,996**	**770**	**(10,461)**	**(190)**		
Cumulative liquidity gap	**12,996**	**13,766**	**3,305**	**3,115**		

An analysis of liquidity and interest rate risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group. The amounts disclosed in these tables do not correspond to the amounts recorded in the consolidated statement of financial position as the presentation below includes a maturity analysis for financial assets and liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the consolidated statement of financial position under the effective interest rate method.

	Weighted average interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2017 Total
FINANCIAL LIABILITIES							
Borrowed funds	13%	2,777	432	3,591	1,104	199	8,102
Other financial liabilities	-	170	-	-	-	-	170
TOTAL FINANCIAL LIABILITIES		**2,947**	**432**	**3,591**	**1,104**	**199**	**8,272**

		Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2016 Total
FINANCIAL LIABILITIES							
Borrowed funds	12%	4,347	2,425	14,273	3,701	-	24,746
Other financial liabilities	-	268	-	-	-	-	268
TOTAL FINANCIAL LIABILITIES		**4,615**	**2,425**	**14,273**	**3,701**	**-**	**25,014**

Market risk

Market risk is the risk that the Group's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk and other pricing risks that the Group is exposed to. There have been no changes as to the way the Group measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

Interest rate and market risks are managed by matching the Group's interest rate position, which provides the Group with a positive interest margin. Management board conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate sensitivity

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. Management of the Group conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact of interest rate 5 basis points changes on profit before tax and equity based on financial assets and liabilities values as at December 31, 2017 and 2016 were as following:

	December 31, 2017		December 31, 2016	
	Interest rate +5%	**Interest rate -5%**	**Interest rate +5%**	**Interest rate -5%**
Impact on profit before tax	170	(170)	(572)	572
Impact on equity	144	(144)	(486)	486

Currency risk

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

Management controls currency risk by monitoring the open currency position on the estimated basis of Georgian Lari devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency.

The Group's open positions by the major currencies in which it holds the assets and liabilities are presented below:

	GEL	**USD** USD 1 = GEL 2.5922	**EUR** EUR 1 = GEL 3.1044	**December 31, 2017 Total**
FINANCIAL ASSETS				
Cash and cash equivalents	593	313	1	907
Loans to customers	5,637	4,952	-	10,589
Other financial assets	928	-	-	928
TOTAL FINANCIAL ASSETS	**7,158**	**5,265**	**1**	**12,424**
FINANCIAL LIABILITIES				
Borrowed funds	-	7,581	-	7,581
Other financial liabilities	170	-	-	170
TOTAL FINANCIAL LIABILITIES	**170**	**7,581**	**-**	**7,751**
OPEN POSITION	**6,988**	**(2,316)**	**1**	**4,673**

	GEL	USD USD 1 = GEL 2.6468	EUR EUR 1 = GEL 2.7940	December 31, 2016 Total
FINANCIAL ASSETS				
Cash and cash equivalents	285	2,127	-	2,412
Loans to customers	11,675	11,874	-	23,549
Other financial assets	527	-	-	527
TOTAL FINANCIAL ASSETS	**12,487**	**14,001**	**-**	**26,488**
FINANCIAL LIABILITIES				
Borrowed funds	-	23,006	99	23,105
Other financial liabilities	258	-	10	268
TOTAL FINANCIAL LIABILITIES	**258**	**23,006**	**109**	**23,373**
OPEN POSITION	**12,229**	**(9,005)**	**(109)**	**3,115**

Currency risk sensitivity

The following table details the Group's sensitivity to a 30% increase and decrease in the USD against the GEL. 30% is the sensitivity rate used when reporting foreign currency risk internally to the key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 30% change in foreign currency rates.

Impact on net profit and equity based on asset values as at December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	GEL/USD +30%	**GEL/USD -30%**	**GEL/USD +30%**	**GEL/USD -30%**
Impact on profit or loss before tax	(694)	694	(900)	900
Impact on equity	(589)	589	(765)	765

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margins and collateral requirements. With respect to undrawn loan commitments the Group is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

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 Group cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

22. SUBSEQUENT EVENTS

As disclosed in Note 10, on January 31, 2018, the Group terminated the loan portfolio Sales Agreements with FINSEC LLC and entered into new Sales Agreements with amended terms. This resulted in recognition of additional GEL 6,855 thousand of borrowed funds in the financial position of the Group, which was issued by the Owners as a new loan in the amount of GEL 6,855 thousand with equity settlement option.

On February 3, 2018, the Board of Directors and the Owner of the Group decided to cease origination of payday loans and concentrate its resources on their collections from existing customers and growth in consumer and mortgage loans.