JSC MICROFINANCE ORGANISATION
MICRO BUSINESS CAPITAL

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the years ended 31 December 2014 and 2013

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FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 4, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of JSC MICROFINANCE ORGANISATION MICRO BUSINESS CAPITAL (hereinafter - the Company).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company at 31 December 2014 and 2013 and the results of its operations, cash flows, and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Company operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The financial statements for the years ended 31 December 2014 and 2013 were approved on behalf of the management on 24 April 2015 by:

General Director	_______________	Gia Petriashvili
Finance Manager	_______________	Tatia Jajanashvili

BDO

Tel: +995 32 254 58 45
Fax: +995 32 239 92 04
bdo@bdo.ge
www.bdo.ge

34 Chavchavadze Ave.
Pixel Center, 8th floor
0179 Tbilisi
Georgia

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of **JSC MICROFINANCE ORGANISATION MICRO BUSINESS CAPITAL**

We have audited the accompanying financial statements of the JSC MICROFINANCE ORGANISATION MICRO BUSINESS CAPITAL (hereinafter - the Company), which comprise the statement of financial position as at 31 December 2014 and 2013, and the statements of comprehensive income, changes in equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of **JSC MICROFINANCE ORGANISATION MICRO BUSINESS CAPITAL** as at 31 December 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

24 April 2015

Tbilisi, Georgia

BDO LLC

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014 and 2013

(In Georgian Lari)

	Note	31 December 2014	31 December 2013
Assets			
Cash and cash equivalents	5	835,610	296,176
Loans to customers	6	7,790,196	3,811,109
Property and equipment	7	182,281	104,850
Intangible assets	7	34,510	43,671
Other assets	8	69,760	10,965
Deferred tax asset	9	26,690	36,779
Total assets		**8,939,047**	**4,303,550**
Liabilities			
Borrowings	10	6,982,266	2,515,552
Subordinated debt	10	1,279,189	1,191,809
Other liabilities	11	64,625	51,099
Total liabilities		**8,326,080**	**3,758,460**
Equity			
Share capital	12	742,500	742,500
Accumulated deficit		(129,533)	(197,410)
Total equity		**612,967**	**545,090**
Total liabilities and equity		**8,939,047**	**4,303,550**

Signed on behalf of management on 24 April 2015 by:

General Director ______________ Gia Petriashvili

Finance Manager ______________ Tatia Jajanashvili

The notes on pages 9-33 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December 2014 and 2013

(In Georgian Lari)

	Note	2014	2013 *
Interest income	13	1,808,137	400,513
Interest expense	13	(828,624)	(180,133)
Net interest income before impairment		**979,513**	**220,380**
Loan impairment charge	6	(158,309)	(80,537)
Net interest income		**821,204**	**139,843**
Salaries and other employee benefits		(341,145)	(161,708)
General and administrative expenses	14	(427,830)	(228,458)
Net gain on foreign exchange operations		38,963	16,134
Profit / (loss) before income tax		**91,192**	**(234,189)**
Income tax (expense) / benefit	9	(23,315)	36,779
Net profit / (loss) for the year / period		**67,877**	**(197,410)**
Other comprehensive income		-	-
Total comprehensive income for the year / period		**67,877**	**(197,410)**

* Period from establishment (6 December 2012) till 31 December 2013

Basic and diluted earnings (loss) per share equals to GEL 0.091 and (GEL 0.266) for the years ended 31 December 2014 and 2013 respectively.

Signed on behalf of management on 24 April 2015 by:

General Director	[signature]	Gia Petriashvili
Finance Manager	[signature]	Tatia Jajanashvili

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December 2014 and 2013

(In Georgian Lari)

	Note	Share capital	Accumulated deficit	Total
Increase of the share capital	12	742,500	-	**742,500**
Total comprehensive loss for the year *		-	(197,410)	**(197,410)**
Balance at 31 December 2013		**742,500**	**(197,410)**	**545,090**
Total comprehensive income for the year		-	67,877	**67,877**
Balance at 31 December 2014		**742,500**	**(129,533)**	**612,967**

* Period from establishment (6 December 2012) till 31 December 2013

Signed on behalf of management on 24 April 2015 by:

General Director		Gia Petriashvili
Finance Manager		Tatia Jajanashvili

JSC MICROFINANCE ORGANISATION MICRO BUSINESS CAPITAL

STATEMENT OF CASH FLOWS

For the years ended 31 December 2014 and 2013

(In Georgian Lari)

	Note	2014	2013 *
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit (loss) before income tax		**91,192**	**(234,189)**
Adjustments for:			
Loan impairment charge	6	158,309	80,537
Depreciation and amortisation expenses	14	37,224	14,390
Net change in interest accruals		(56,528)	(44,114)
Net loss on foreign exchange operations		203,034	171,245
Cash inflow (outflow) from operating activities before changes in operating assets and liabilities		**433,231**	**(12,131)**
Decrease in operating assets:			
Loans to customers		(4,036,469)	(3,825,063)
Other assets		(58,795)	(10,965)
Increase in operating liabilities:			
Other liabilities		301	16,039
Net cash outflow from operating activities		**(3,661,732)**	**(3,832,120)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(105,494)	(117,106)
Purchase of intangible assets		-	(10,745)
Net cash outflow from investing activities		**(105,494)**	**(127,851)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings and subordinated debt		6,201,016	3,550,345
Repayment of borrowings and subordinated debt		(1,902,620)	(34,124)
Proceeds from increase of the share capital	12	-	742,500
Net cash inflow from financing activities		**4,298,396**	**4,258,721**
Net increase in cash and cash equivalents		**531,170**	**298,750**
Cash and cash equivalents at the beginning of the year	5	296,176	-
Effect of exchange rate fluctuations on cash		8,264	(2,574)
Cash and cash equivalents at the end of the year	5	**835,610**	**296,176**

* Period from establishment (6 December 2012) till 31 December 2013

Signed on behalf of management on 24 April 2015 by:

General Director		Gia Petriashvili
Finance Manager		Tatia Jajanashvili

The notes on pages 9-33 form an integral part of these financial statements.

1. GENERAL INFORMATION

Microfinance Organisation MICRO BUSINESS CAPITAL was established on 6 December 2012 as a Joint Stock Company (the "Company") in accordance with Georgian legislation.

The Company conducts its business under the Law on Microfinance Activity and is regulated by the National Bank of Georgia ("NBG").

As the Company's principal business activity - MICRO BUSINESS CAPITAL provides micro and small loans (up to GEL 50,000) to customers in Georgia. Loans are disbursed in USD and GEL.

With the head office located on 41 Sulkhan Tsintsadze Street, Tbilisi, Georgia, the Company had two other service centres in Tbilisi as at 31 December 2014 (2013: one).

As at 31 December 2014 and 2013 the following shareholders owned shares of the Company:

	31 December 2014			31 December 2013		
Shareholder	**Share %**	**Number of shares**	**Nominal value**	**Share %**	**Number of shares**	**Nominal value**
Gia Petriashvili	33.3%	247,500	247,500	33.3%	247,500	247,500
Ambroladze murmani	16.7%	123,750	123,750	16.7%	123,750	123,750
Maziashvili Tengizi	11.1%	82,500	82,500	11.1%	82,500	82,500
Nijaradze Tarasi	11.1%	82,500	82,500	11.1%	82,500	82,500
Gotoshia Giorgi	11.1%	82,500	82,500	11.1%	82,500	82,500
Meladze Goderdzi	11.1%	82,500	82,500	11.1%	82,500	82,500
Vachnadze Giorgi	5.6%	41,250	41,250	5.6%	41,250	41,250
Total shares issued	**100.0%**	**742,500**	**742,500**	**100.0%**	**742,500**	**742,500**

For more information about the Company's share capital, refer to note 12.

For information about increase of capital after the end of reporting period, refer to note 19.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB).

The principal accounting policies adopted in the preparation of the financial statements are set in the note 3.

BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention as modified by the initial recognition of financial instruments and inventories of repossessed collateral based on fair value.

The Company maintains its records and prepares financial statements in Georgian Lari (GEL) in accordance with International Financial Reporting Standards (IFRS) as required by Georgian legislation.

The reporting period for the Company is the calendar year from January 1 to December 31.

The year ended 31 December 2013 for the purposes of this financial statement represents the period from the date of Company's establishment (6 December 2012) till 31 December 2013.

2. BASIS OF PREPARATION (continued)

The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires Company management to exercise judgment in the most appropriate application in applying the Company's accounting policies.

The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 4.

GOING CONCERN

These financial statements have been prepared on the assumption that the Company is a going concern and will continue its operations for the foreseeable future. The management and shareholder have the intention to further develop the business of the Company in Georgia. The management believes that the going concern assumption is appropriate for the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal accounting policies applied in the preparation of these financial statements are set out below. These policies are consistently applied to all the years presented, unless otherwise stated.

FINANCIAL INSTRUMENTS

Key measurement terms

Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, are not presented separately and are included in the carrying values of related balance sheet items.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

(a) Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets. The Company determines the classification of its financial assets upon initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss. They are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss.

The Company does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Held to maturity investments

Non derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Company has positive intention and ability to hold them upon maturity. The Company does not have any investments held to maturity.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise principally the Company's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities as well as corporate bonds. They are carried at fair value with changes in fair value generally recognised in other comprehensive income and accumulated in the available-for-sale reserve; Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognised in other comprehensive income, is recognised in profit or loss.

Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available-for-sale reserve. On sale, the cumulative gain or loss recognised in other comprehensive income is reclassified from the available-for-sale reserve to profit or loss. The Company does not have any assets classified as available-for-sale.

Derecognition of financial assets

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(b) Financial liabilities

Financial liabilities are classified as due to Company and customer accounts. 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 recognised 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 through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company'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 derecognised and the consideration paid and payable is recognised in profit and loss.

(c) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

(d) IFRS 7 fair value measurement hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

4. Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
5. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
6. Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

The Company has no financial assets or liabilities measured at fair value; accordingly they are not presented under the IFRS 7 fair value measurement hierarchy.

(e) Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Company considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- Any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- The borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the organisation obtains;
- The borrower considers bankruptcy or a financial reorganisation;
- There is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- The value of collateral significantly decreases as a result of deteriorating market conditions.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

individually. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of sufficient historical loss experience and the success of recovery of overdue amounts. Historical experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to reduce the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, and all bank placements or receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents.

AMOUNTS DUE FROM BANKS

Amounts due from banks are recorded when the Company advances money to banks with original maturity of more than three months and with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from banks are carried at amortised cost.

PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation (amortisation) and recognized impairment loss, if any.

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

Historical cost	Useful life (years)
Furniture and equipment	5
Computer equipment and communication devices	5
Leasehold improvements	Lease contract term
Technical equipment	5
Software	5

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. The intangible assets with definite useful lives are amortised on a straight line basis over expected useful lives.

BORROWINGS

Borrowings are initially recognized at fair value. Subsequently they are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings, using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SHARE CAPITAL

Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A provision is a liability of uncertain timing or amount. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation. A legal obligation is an obligation that derives from:

- A contract (through its explicit or implicit terms);
- Legislation; or
- Other operation of law.

A constructive obligation is an obligation that derives from an entity's actions where:

- By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

The term 'contingent liability' is used for liabilities that do not meet the recognition criteria. Accounting policy distinguishes between:

- provisions - which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and
- contingent liabilities - which are not recognised as liabilities because they are either:
  - possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits; or
  - present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

Contingent liabilities are not reflected in the financial statements, except for the cases when the outflow of economic benefits is likely to origin and the amount of such liabilities can be reliably measured. The information on contingent liabilities is disclosed in the notes to the financial statements with the exception of cases, when the outflow of economic benefits is likely.

Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

Contingent assets are not reflected in the financial statements, but the information on them is disclosed when inflow of economic benefits is possible. If economic benefits are sure to occur, an asset and related income are recognized in the financial statements for the year, when the evaluation change occurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

TAXATION

The tax expense for the year comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in Georgia and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rate (and laws) that has been enacted or substantially enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity where there is an intention to settle the balances on a net basis.

UNCERTAIN TAX POSITIONS

The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

INCOME AND EXPENSE RECOGNITION

Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Company to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Company will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset’s effective interest rate which was used to measure the impairment loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

SALARIES AND OTHER EMPLOYEE BENEFITS

Wages, salaries, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company.

DIVIDENDS

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note.

EARNINGS PER SHARE

Earnings per share (“EPS”) are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period and events before the date of financial statements authorization for issue that provide additional information about the Company’s financial statements are reported in the financial statements. Post-balance sheet events that do not affect the financial position of the Company at the balance sheet date are disclosed in the notes to the financial statements when material.

FOREIGN CURRENCY TRANSLATION

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (‘the functional currency’). Financial statements are presented in Georgian Lari (GEL), which is the Company’s functional and presentation currency.

Monetary assets and liabilities are translated into Company’s functional currency at the official exchange rate of the National Bank of Georgia.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into Company’s functional currency at year-end official exchange rates are recognised in the statement of comprehensive income. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Table below presents the closing exchange rates by the National Bank of Georgia As at 31 December 2014 and 2013:

	USD / GEL	EUR / GEL
Exchange rate as at 31 December 2014	1.8636	2.2656
Exchange rate as at 31 December 2013	1.7363	2.3891

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The accounting policies adopted are consistent for the all periods presented. None of the new and amended IFRS and IFRIC interpretations which became effective during reporting periods has any material impact on the Company’s financial Statements. The following new standards and interpretations became effective for the Company from 1 January 2014:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014)

The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy. The amended standard did not have a material impact on the Company.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014)

The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation did not have a material impact on the Company.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014)

The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amended standard did not have a material impact on the Company.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015, and which the Company has not early adopted. This listing of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date, therefore intends to adopt those standards when they become effective:

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018)

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Company is currently assessing the possible impact of the new standard on its financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016)

In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amended is not expected to have any material impact on the Company's financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016)

The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".

The amended is not expected to have any material impact on the Company's financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016)

The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

The amended is not expected to have any material impact on the Company's financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised 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.

ALLOWANCE FOR IMPAIRMENT OF LOANS AND RECEIVABLES

The Company regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets in the company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The primary factor that is currently used for estimating the general loan impairment allowance is the delinquency status of the loan and the type of the loan with the following prescribed rates:

Delinquency status	Rate in %
Less than 30 days overdue	2 - 10
30 to 60 days overdue	10 - 30
60 to 90 days overdue	30 - 50
90 to 180 days overdue	50 - 100
More than 180 days overdue	100

USEFUL LIVES OF PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets are depreciated or amortised over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.

INCOME TAXES

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Company’s belief that its tax return positions are supportable, the Company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. As a result Company minimizes the risks related to this fact. The Company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events.

LEGAL PROCEEDINGS

The Company only recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realization of any contingent liabilities not currently recognized or disclosed in the financial statements could have a material effect on the Company's financial position. Application of these accounting principles to legal cases requires the Company's management to make determinations about various factual and legal matters beyond its control. The Company reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Company's management as to how it will respond to the litigation, claim or assessment.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2014 and 2013 can be presented as follows:

	31 December 2014	31 December 2013
Cash on hand	247,990	144,803
Cash at Bank in Georgian Lari	30,278	25,420
Cash at Bank in foreign currency	90,446	125,953
Short-term Deposits in foreign currency	466,896	-
Total cash and cash equivalents	**835,610**	**296,176**

Short-term deposits in foreign currency represent bank placements with original maturities of less than three months. Cash and cash equivalents distribution by currency is disclosed in note 16.

6. LOANS TO CUSTOMERS

Loans to customers as at 31 December 2014 and 2013 can be presented as follows:

	31 December 2014	31 December 2013
Gross loans to customers	7,981,069	3,891,646
Less: allowance for impairment losses	(190,873)	(80,537)
Net loans to customers	**7,790,196**	**3,811,109**

Movements of the loan impairment allowance for the year 2014 and 2013 are as follows:

	2014	2013
Balance at the beginning of the year	**80,537**	**-**
Net charge for the year	158,309	80,537
Recoveries of written-off loans	1,006	-
Write-offs during the year	(48,979)	-
Balance at the end of the year	**190,873**	**80,537**

6. LOANS TO CUSTOMERS (continued)

Loans to customers by currencies as at 31 December 2014 and 2013 can be presented as follows:

	31 December 2014		31 December 2013
Breakdown of loans to customers by currencies	**USD**	**GEL**	**USD**
Gross loans to customers	6,909,839	1,071,230	3,891,646
Less: allowance for impairment losses	(169,654)	(21,219)	(80,537)
Net loans receivable	**6,740,185**	**1,050,011**	**3,811,109**

The following table provides information on the credit quality of the loan portfolio:

Risk category	31 December 2014	31 December 2013
less than 30 days overdue	7,881,838	3,878,240
30 to 60 days overdue	4,223	-
60 to 90 days overdue	13,017	10,400
90 to 180 days overdue	81,991	3,006
Gross loans to customers	**7,981,069**	**3,891,646**
Less: allowance for impairment losses	(190,873)	(80,537)
Net loans to customers	**7,790,196**	**3,811,109**

As at 31 December 2014 and 2013 no individual loan balances exceeded 1.5% of total portfolio.

Information about collateral is given below:

Loans to customers are collateralized by:	31 December 2014	31 December 2013
Real estate	6,964,732	3,423,575
Movable property, including vehicles	804,210	365,440
Deposits	21,254	22,094
Net loans to customers	**7,790,196**	**3,811,109**

Reconciliation of loans to customers according to the agreement and effective interest rate:

	31 December 2014	31 December 2013
Originated loans to customers according to the agreement	7,964,309	3,856,219
Accrued interest according to the agreement	100,928	66,583
Gross loans to customers according to the agreement	**8,065,237**	**3,922,802**
Adjustment according to the effective interest rate method *	(84,168)	(31,156)
Gross loans to customers	**7,981,069**	**3,891,646**
Less: allowance for impairment losses	(190,873)	(80,537)
Net loans to customers	**7,790,196**	**3,811,109**

* Income from loan service fee, charged at loan disbursement date is recognised according to the effective interest method as per IAS 39. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period.

7. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets as at 31 December 2014 and 2013 can be presented as follows:

Historical cost	Furniture and Equipment	Computer Equipment and Communication Devices	Leasehold Improvements	Technical Equipment	Total PPE	Intangible assets	Total
Additions during 2013	30,989	52,208	26,809	7,100	**117,106**	45,805	**162,911**
As at 31 December 2013	**30,989**	**52,208**	**26,809**	**7,100**	**117,106**	**45,805**	**162,911**
Additions during 2014	42,927	13,565	36,402	12,600	**105,494**	-	**105,494**
As at 31 December 2014	**73,916**	**65,773**	**63,211**	**19,700**	**222,600**	**45,805**	**268,405**
Accumulated depreciation and amortisation							
Charge during 2013	(3,731)	(6,706)	(1,190)	(629)	**(12,256)**	(2,134)	**(14,389)**
As at 31 December 2013	**(3,731)**	**(6,706)**	**(1,190)**	**(629)**	**(12,256)**	**(2,134)**	**(14,390)**
Charge during 2014	(9,801)	(11,590)	(5,091)	(1,581)	**(28,063)**	(9,161)	**(37,224)**
As at 31 December 2014	**(13,532)**	**(18,296)**	**(6,281)**	**(2,210)**	**(40,319)**	**(11,295)**	**(51,614)**
Net book value							
As at 31 December 2013	**27,258**	**45,502**	**25,619**	**6,471**	**104,850**	**43,671**	**148,521**
As at 31 December 2014	**60,384**	**47,477**	**56,930**	**17,490**	**182,281**	**34,510**	**216,791**

8. OTHER ASSETS

Other assets as at 31 December 2014 and 2013 can be presented as follows:

	31 December 2014	31 December 2013
Receivables from money transfers	44,983	1,475
Prepayments	23,345	9,490
Other receivables	1,432	-
Total other assets	**69,760**	**10,965**

9. TAXATION

The differences between IFRS and Georgia statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. Temporary differences as at 31 December 2014 can be presented as follows:

Temporary differences at a rate of 15% due to:	Asset	Liability	Net	Credited (charged) to the Income Statement
Loans to customers	39,299	-	**39,299**	23,425
Property and equipment	-	(19,832)	**(19,832)**	(7,523)
Intangible assets	-	(212)	**(212)**	499
Borrowings and subordinated debt	4,593	-	**4,593**	1,972
Other liabilities	2,842	-	**2,842**	2,774
Tax loss carried forward	-	-	**-**	(31,236)
Tax asset/(liabilities)	**46,734**	**(20,044)**	**26,690**	**(10,089)**
Set off of tax	(20,044)	20,044		
Deferred tax assets / (liabilities)	**26,690**	**-**	**26,690**	**(10,089)**

Temporary differences as at 31 December 2013 can be presented as follows:

Temporary differences at a rate of 15% due to:	Asset	Liability	Net	Credited (charged) to the Income Statement
Loans to customers	15,874	-	**15,874**	15,874
Property and equipment	-	(12,309)	**(12,309)**	(12,309)
Intangible assets	-	(711)	**(711)**	(711)
Borrowings and subordinated debt	2,621	-	**2,621**	2,621
Other liabilities	68	-	**68**	68
Tax loss carried forward	31,236	-	**31,236**	31,236
Deferred Tax assets / (liabilities)	**49,799**	**(13,020)**	**36,779**	**36,779**
Set off of tax	(13,020)	13,020		
Net deferred tax assets	**36,779**	**-**	**36,779**	**36,779**

9. TAXATION (continued)

The tax effects of the movements in temporary differences recorded at the rate of 15% are as follows:

Temporary differences at a rate of 15% due to:	Credited (charged) to the Income Statement	Balance at 31 December 2013	Credited (charged) to the Income Statement	Balance at 31 December 2014
Loans to customers	15,874	**15,874**	23,425	**39,299**
Property and equipment	(12,309)	**(12,309)**	(7,523)	**(19,832)**
Intangible assets	(711)	**(711)**	499	**(212)**
Borrowings and subordinated debt	2,621	**2,621**	1,972	**4,593**
Other liabilities	68	**68**	2,774	**2,842**
Tax loss carried forward	31,236	**31,236**	(31,236)	**-**
Deferred tax assets / (liabilities)	**36,779**	**36,779**	**(10,089)**	**26,690**

Income tax (expense) / benefit for the years ended 31 December 2014 and 2013 comprises the following:

	2014	2013
Current income tax	(13,226)	-
Effect of temporary differences	(10,089)	36,779
Income tax (expense) / benefit	**(23,315)**	**36,779**

Reconciliation of the income tax expense based on statutory rate with actual is as follows:

	2014	2013
Profit / (loss) before income tax	91,192	(234,189)
Applicable tax rate	15%	15%
Theoretical Income tax (expense) / benefit	(13,679)	35,128
Effect of permanent differences	(9,636)	1,651
Income tax (expense) / benefit	**(23,315)**	**36,779**

10. BORROWINGS

Borrowings as at 31 December 2014 and 2013 can be presented as follows:

	31 December 2014	31 December 2013
Originated borrowings	6,940,490	2,495,526
Accrued interest	41,776	20,026
Total borrowings	**6,982,266**	**2,515,552**

10. BORROWINGS (continued)

	31 December 2014	31 December 2013
Subordinated debt	1,276,566	1,189,366
Accrued interest on subordinated debt	2,623	2,443
Total subordinated debt	**1,279,189**	**1,191,809**

Breakdown of borrowings by current and non-current portions can be presented as follows:

	Borrowings		Subordinated debt	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Current portion	3,674,216	1,452,589	2,623	2,444
Non-current portion	3,308,050	1,062,963	1,276,566	1,189,365
Total	**6,982,266**	**2,515,552**	**1,279,189**	**1,191,809**

Contractual maturity analysis and currency analysis of borrowings is disclosed in note 16.

Following table details outstanding borrowings and accrued interest as at 31 December 2014 and 2013:

		31 December 2014		31 December 2013	
Borrower	**Currency**	**Originated borrowings**	**Accrued Interest**	**Originated borrowings**	**Accrued Interest**
JSC Basis Bank	GEL	768,305	4,580	-	-
Individuals	GEL	84,000	1,207	43,000	378
Individuals	USD	5,879,680	34,473	2,296,259	18,080
Individuals	EUR	40,781	267	-	-
Legal entities	USD	167,724	1,249	156,267	1,568
Total borrowings		**6,940,490**	**41,776**	**2,495,526**	**20,026**

Subordinated debts are only received by individuals and are totally denominated in USD.

11. OTHER LIABILITIES

Other liabilities as at 31 December 2014 and 2013 can be presented as follows:

	31 December 2014	31 December 2013
Accounts payable	48,400	48,105
Taxes payable	16,193	1,102
Other liabilities	32	1,892
Total other liabilities	**64,625**	**51,099**

12. SHARE CAPITAL

JSC Microfinance organisation Micro Business Capital was established on 6 December 2012.

Total authorised capital as at 31 December 2014 equals to 2,000,000 shares, however not all authorised shares were purchased by the end of reporting period.

Total of 742,500 shares were fully paid since establishment till 31 December 2014 with a value of 1 GEL each and total value of GEL 742,500.

The value of shares in USD at the issue date equalled USD 444,294.

For the information about the shares issued following 31 December 2014, refer to note 19.

Share capital as at 31 December 2014 and 2013 can be presented as follows:

	31 December 2014		31 December 2013	
Shares in issue with nominal value of GEL 1 each	**Number of shares**	**Value of shares in GEL**	**Number of shares**	**Value of shares in GEL**
Total number and value of share capital	**742,500**	**742,500**	**742,500**	**742,500**

Information about Company's shareholders is presented in note 1.

The Company has made no dividend payments for the years ended 31 December 2014 and 2013.

13. NET INTEREST INCOME

Net interest income for the years ended 31 December 2014 and 2013 can be presented as follows:

Interest income is arising from:	**2014**	**2013**
Loans to customers	1,803,779	387,919
Placements with banks	4,358	12,594
Total interest income	**1,808,137**	**400,513**
Interest expense is arising from borrowings from:		
Borrowings from individuals	(690,783)	(165,229)
Borrowings from banks	(112,480)	-
Other borrowings	(25,361)	(14,904)
Total interest expense	**(828,624)**	**(180,133)**
Net interest income before impairment provisions	**979,513**	**220,380**

14. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December 2014 and 2013 can be presented as follows:

	2014	2013
Advertising and marketing	151,252	85,173
Rent	109,443	62,839
Consulting	42,518	16,704
Depreciation and amortization	37,224	14,390
Security expenses	20,000	15,010
Creditinfo expenses	11,052	5,934
Communications	10,830	5,460
Bank Charges	10,746	7,501
Utility expense	9,751	5,601
Office supplies	8,141	5,706
Transportation expenses	5,315	816
Repairs and maintenance	2,636	127
Staff Training	2,100	563
Tax expenses other than income tax	1,568	743
Other expenses	5,254	1,891
Total General and Administrative expenses	**427,830**	**228,458**

15. COMMITMENTS AND CONTINGENCIES

LITIGATION

In the ordinary course of business, Companies are usually subject to legal actions and complaints.

Following the Company's customers' failure to meet loan repayment obligations the Company is involved in legal disputes against such customers. The highest possible outcome from such legal disputes is the amount of loans receivable from such customers (including accrued interest and other charges).

As it is not certain that all the customers will meet the repayment obligations, the Company recognises provision for impairment for such loans, as disclosed in note 6.

OPERATING LEASE COMMITMENTS

The Company leases offices under operating lease. The leases typically run for a period of 6 years, with an option to renew the lease after that date. Non-cancellable operating lease commitments as at 31 December 2014 and 2013 are payable as follows:

	31 December 2014	31 December 2013
Up to 3 months	31,774	25,159
3 months to 1 year	95,323	75,476
1 year to 2 years	127,097	100,634
2 year to 3 years	127,097	100,634
Over 3 years	230,378	215,919
Financial commitments and contingencies, net	**611,670**	**517,823**

During the year ended 31 December 2014 and 2013 GEL 109,443 and GEL 62,839 respectively were recognised as expense in the statement of comprehensive income in respect of operating leases.

16. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

As a financial institution, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Financial assets and financial liabilities that are liquid or have a short term maturity it is assumed that the carrying amounts approximate to their fair value.

GENERAL OBJECTIVES, POLICIES AND PROCESSES

The management has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the organisations finance function.

The overall objective of the management is to set polices that seek to reduce risks as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below. Through its operations, the Company is exposed to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk:
  - Currency risk
  - Interest rate risk

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the lending and other transactions with counterparties giving rise to financial assets.

As the Company is providing micro-loans to customers as the core business activity credit risk is of crucial importance similar to any Micro Financing Organisations (MFO) risk management process. To avoid significant financial damage caused by this risk the Company uses various methods to identify and manage them effectively.

The Company has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by management.

The Company continuously monitors the performance of individual credit exposures and branches and regularly reassesses the creditworthiness of its customers. The review is based on updated financial information of clients obtained by credit staff from monitoring and later the information is cross-checked on a risk based assessment by Department of Internal and Field Control.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting dates was:

	Note	31 December 2014	31 December 2013
Cash and cash equivalents (excluding cash on hand)	5	587,620	151,373
Loans to customers	6	7,790,196	3,811,109
Total credit risk exposure		**8,377,816**	**3,962,482**

Company's credit exposure related to loans to customers is disclosed in note 6.

16. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

LIQUIDITY RISK

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

In order to manage liquidity risk, the Company performs regular monitoring of future expected cash flows, which is a part of assets/liabilities management process. An analysis of the liquidity and interest rate risks is presented in the following tables. The presentation below is based upon the information provided by key management personnel of the Company. Liquidity of Financial assets and liabilities as at 31 December 2014 can be presented in the following table:

Financial assets	Note	Up to 3 months	3 months to 1 year	1 year to 2 years	2 year to 3 years	Over 3 years *	Total
Cash and cash equivalents	5	835,610	-	-	-	-	**835,610**
Loans to customers	6	1,439,044	1,981,035	795,450	519,111	3,055,556	**7,790,196**
Total financial assets as at 31 December 2014		**2,274,654**	**1,981,035**	**795,450**	**519,111**	**3,055,556**	**8,625,806**
Financial liabilities							
Borrowings	10	610,686	3,062,130	2,791,782	500,920	16,748	**6,982,266**
Subordinated debt	10	2,623	-	-	1,276,566	-	**1,279,189**
Total interest bearing financial liabilities		**613,309**	**3,062,130**	**2,791,782**	**1,777,486**	**16,748**	**8,261,455**
Other liabilities	11	10,281	13,045	25,074	-	-	**48,400**
Total financial liabilities as at 31 December 2014		**623,590**	**3,075,175**	**2,816,856**	**1,777,486**	**16,748**	**8,309,855**
Financial commitments and contingencies	15	31,774	95,323	127,097	127,097	230,378	**611,670**
Liquidity gap at 31 December 2014		**1,619,290**	**(1,189,463)**	**(2,148,503)**	**(1,385,472)**	**2,808,430**	**(295,719)**
Cumulative liquidity gap at 31 December 2014		**1,619,290**	**429,827**	**(1,718,676)**	**(3,104,148)**	**(295,719)**	

* Liquidity of financial assets and liabilities are presented above based on their original maturities, however according to actual practice of early repayments of loans from customers assets with original maturities of more than 3 years are usually repaid in 1-1.5 years.

Liquidity gap was updated after the reporting period following the issue of new shares as disclosed in note 19.

16. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

Liquidity of Financial assets and liabilities as at 31 December 2013 can be presented as follows:

Financial assets	Note	Up to 3 months	3 months to 1 year	1 year to 2 years	2 year to 3 years	Over 3 years	Total
Cash and cash equivalents	5	296,176	-	-	-	-	**296,176**
Loans to customers	6	176,688	2,005,205	123,888	677,895	827,433	**3,811,109**
Total financial assets as at 31 December 2013		**472,864**	**2,005,205**	**123,888**	**677,895**	**827,433**	**4,107,285**
Financial liabilities							
Borrowings	10	20,026	1,432,563	1,057,407	5,556	-	**2,515,552**
Subordinated debt	10	2,444	-	-	-	1,189,365	**1,191,809**
Total interest bearing financial liabilities		**22,470**	**1,432,563**	**1,057,407**	**5,556**	**1,189,365**	**3,707,361**
Other liabilities	11	13,045	-	35,060	-	-	**48,105**
Total financial liabilities as at 31 December 2013		**35,515**	**1,432,563**	**1,092,467**	**5,556**	**1,189,365**	**3,755,466**
Financial commitments and contingencies	15	25,159	75,476	100,634	100,634	215,919	**517,823**
Liquidity gap at 31 December 2013		**412,190**	**497,166**	**(1,069,213)**	**571,705**	**(577,851)**	**(166,004)**
Cumulative liquidity gap at 31 December 2013		**412,190**	**909,357**	**(159,857)**	**411,848**	**(166,004)**	

Management believes that the Company has sufficient liquidity to meet its recognised and off-balance sheet obligations.

MARKET RISK

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors. Market risk arises from the Company's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates (currency risk) and interest rates (interest rate risk).

16. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

- **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 Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Company's exposure to foreign currency exchange rate risk as at 31 December 2014 is presented in the table below:

Financial assets	Note	GEL	USD 1 = 1.8636 GEL	EUR 1 = 2.2656 GEL	Total as at 31 December 2014
Cash and cash equivalents	5	121,488	624,700	89,422	**835,610**
Loans to customers	6	1,050,011	6,740,185	-	**7,790,196**
Total financial assets		**1,171,499**	**7,364,885**	**89,422**	**8,625,806**
Financial liabilities					
Borrowings	10	858,092	6,083,126	41,048	**6,982,266**
Subordinated debt	10	-	1,279,189	-	**1,279,189**
Other liabilities	11	48,400	-	-	**48,400**
Total financial liabilities		**906,492**	**7,362,315**	**41,048**	**8,268,807**
Open balance sheet position		**265,007**	**2,570**	**48,374**	**356,999**

The Company's exposure to foreign currency exchange rate risk as at 31 December 2013 is presented in the table below:

Financial assets	Note	GEL	USD 1 = 1.7363 GEL	EUR 1 = 2.3891 GEL	Total at 31 December 2014
Cash and cash equivalents	5	47,405	214,758	34,013	**296,176**
Loans to customers	6	-	3,811,109	-	**3,811,109**
Total financial assets		**47,405**	**4,025,867**	**34,013**	**4,107,285**
Financial liabilities					
Borrowings	10	43,378	2,472,174	-	**2,515,552**
Subordinated debt	10	-	1,191,809	-	**1,191,809**
Other liabilities	11	48,105	-	-	**48,105**
Total financial liabilities		**91,483**	**3,663,983**	**-**	**3,755,466**
Open balance sheet position		**(44,078)**	**361,884**	**34,013**	**351,819**

Impact on the statement of comprehensive income and equity based on financial instrument values as at 31 December 2014 and 2013 can be presented as follows:

	USD impact		**EUR impact**	
	2014	**2013**	**2014**	**2013**
10% increase	257	36,188	4,837	3,401
10% decrease	(257)	(36,188)	(4,837)	(3,401)

16. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

The table above details the Company’s sensitivity to a 10% increase and decrease in the foreign currency exchange rates against GEL and represents management’s assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the year for a 10% change in foreign currency rates.

The analysis assumes that all other variables, in particular interest rates, remain constant.

Management believes that reasonable increase or decrease in market exchange rates do not reveal significant potential effect of the Company's statement of comprehensive income or equity as at 31 December 2014 and 2013.

- **INTEREST RATE RISK**

Interest rate risk arises from potential changes in market interest rates that can adversely affect the fair values of the financial assets and liabilities of the Company. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

The table below summarises the Company’s exposure to interest rate risks. The table presents the aggregated amounts of the Company’s interest bearing financial assets and interest bearing financial liabilities at carrying amounts as at 31 December 2014 and 2013.

	31 December 2014	**31 December 2013**
Total interest bearing financial assets	7,790,196	3,811,109
Total interest bearing financial liabilities	(8,261,455)	(3,707,361)
Net interest sensitivity gap	**(471,259)**	**103,748**

The information about maturities of interest bearing financial assets and interest bearing financial liabilities is given in liquidity risk quantitative disclosures above.

The Company performs analysis of interest rate risk sensitivity.

Company's all interest bearing assets and liabilities are at fixed interest rates, therefore market interest rate fluctuations do not affect Company's income or expenses.

17. MANAGEMENT OF CAPITAL

The Company's objectives when maintaining capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to operate sufficiently; and
- To comply with the capital requirements set by NBG.
- To provide an adequate return to shareholders.

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

18. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, could be one or more of the following:

a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Company that gives then significant influence over the Company; and that have joint control over the Company;

b) Members of key management personnel of the Company or its parent;

c) Close members of the family of any individuals referred to in (a) or (b);

d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (b);

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Company and other related parties are disclosed below.

Related party balances and transactions as and for the years ended 31 December 2014:

Financial Statement caption	Note	Shareholders	Key management personnel	Other related parties	Total as per financial statement
Borrowings	10	2,627,918	-	464,945	6,982,266
Subordinated debt	10	1,279,189	-	-	1,279,189
Interest expense	13	(365,239)	-	(50,852)	(828,624)
Salaries and other employee benefits		-	(150,024)	-	(341,145)

Related party balances and transactions as and for the year ended 31 December 2013:

Financial Statement caption	Note	Shareholders	Key management personnel	Other related parties	Total as per financial statement
Borrowings	10	834,849		175,279	2,515,552
Subordinated debt	10	1,191,809			1,191,809
Interest expense	13	-		(15,961)	(180,133)
Salaries and other employee benefits		-	(87,302)		(161,708)

19. EVENTS AFTER THE REPORTING PERIOD

INCREASE OF CAPITAL

The Company issued additional shares after the end of reporting period, but before the financial statements were issued. Company’s share capital was increased to GEL 1,600,000 (USD 861,427 on transaction date) by issuing additional ordinary shares of GEL 857,500 (USD 417,133). This transaction resulted in a share premium of GEL 210,734 (USD 102,512), therefore total share capital and share premium by 2 February 2015 amounted GEL 1,810,734 (USD 963,939 on transaction date). New shares were purchased by existing shareholders as well as new shareholder – Otar Rukhadze. Ordinary shares of 400,000 were authorised but not purchased by 2 February 2015.

NEW SIGNIFICANT SUBORDINATED BORROWINGS

Company received significant subordinated borrowing of USD 200,000 as an additional source of finance on 22 April 2015.