



**MICROFINANCE ORGANIZATION
CONTINENTAL CITY CREDIT LLC**

**Financial Statements as at
31 December, 2012**

with

Independent Auditors' Report

**MFO Continental City Credit LLC
Financial Statements as at
31 December, 2012**

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**MFO Continental City Credit LLC
Financial Statements as at
31 December, 2012
Prepared under IFRS**

Statement of management's responsibilities

Management of MFO Continental City Credit LLC is responsible for accompanying financial statements of MFO Continental City Credit LLC.

This responsibility includes:

- preparation of financial statements in accordance with International Financial Reporting Standards;
- selection of suitable accounting policies and their consistent application;
- making judgments and estimates which are reasonable and prudent;
- preparation of the financial statements on the going concern basis, unless circumstances make this inappropriate.

Management is also responsible for:

- creation, implementation and maintaining effective internal control system;
- keeping proper accounting records in compliance with local regulations;
- taking such steps as are reasonably open to them to safeguard the assets of the Company; and
- prevention and detection of fraud and other irregularities.

The financial statements for the year ended 31 December, 2012 were approved by the management and signed on its behalf:

Giorgi Gogvadze



Chief Executive Officer
MFO Continental City Credit LLC

Lasha Khoperia



Chief Financial Officer
MFO Continental City Credit LLC

Date: May 8, 2013

**INDEPENDENT AUDITORS' REPORT
TO THE OWNERS OF MFO Continental City Credit LLC**

Report on the financial statements

1. We have audited the accompanying financial statements of MFO Continental City Credit LLC (the "Company"), which comprise the statement of financial position as at December 31, 2012 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining the internal control relevant to preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

3. 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 whether the financial statements are free from material misstatement.
4. 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 risk of material misstatements of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company'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.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit.

Opinion

6. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2012 and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

PKF Georgia Ltd

Date: 08 May, 2013

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MFO Continental City Credit LLC
 STATEMENT OF FINANCIAL POSITION
 As at December 31, 2012
 Amounts expressed in GEL



	<u>Note</u>	<u>31-Dec-12</u>
ASSETS		
Cash and cash equivalents	5	265,267
Loans to customers	6	4,204,285
Interest receivable		60,388
Property and equipment	7	350,041
Intangible assets	8	77,643
Deferred tax asset	9	33,611
Other assets	10	24,616
Total assets		5,015,851
LIABILITIES		
Borrowings	11	331,340
Interest payable	11	1,209
Tax liabilities		1,741
Other liabilities	12	74,689
Total liabilities		408,979
EQUITY		
Charter capital		4,800,000
Accumulated Loss		(193,128)
Total equity		4,606,872
Total liabilities and equity		5,015,851

Giorgi Gogvadze
 Chief Executive Officer

Lasha Khoperia
 Chief Financial Officer

Date: May 8, 2013

MFO Continental City Credit LLC
 INCOME STATEMENT
 For the period ended December 31, 2012
 Amounts expressed in GEL



	<u>Note</u>	<u>31-Dec-12</u>
Interest and fees on loans		805,746
Interest expense		(10,583)
Net interest income		795,163
Interest on bank deposits		16,209
Fee and commission expense		(5,535)
Net income from currency trading		3,288
Net foreign exchange loss/gain		37,399
Administrative and other operating expenses	13	(1,073,263)
Profit (Loss) before tax		(226,739)
Income tax (expense) / benefit		33,611
Period Result		(193,128)

Giorgi Gogvadze
 Chief Executive Officer

Lasha Khoperia
 Chief Financial Officer

Date: May 8, 2013

31-Dec-12

Cash flows from operating activities

Interest received	745,358
Loan principal returned by customers	1,224,235
Commissions received	3,282
Loans Issued	(5,377,142)
interest paid	(9,360)
staff costs paid	(550,866)
Administrative and other operating expenses paid	(394,486)

Net cash from operating activities **(4,358,979)**

Cash flows from investing activities

Interest received on bank deposits	16,209
Acquisition of premises and equipment	(431,201)
Acquisition of intangible assets	(88,766)

Net cash from investing activities **(503,758)**

Cash flows from financing activities

Increase of share capital	4,800,000
Proceeds from borrowed funds	597,308
Repayment of borrowed funds	(266,016)

Net cash from financing activities **5,131,292**

Effects of exchange rate changes on cash and cash equivalents (3,288)

Net increase in cash and cash equivalents **265,267**

Cash and cash equivalents at beginning of period -

Cash and cash equivalents at end of period **265,267**



Giorgi Gogvadze
 Chief Executive Officer



Lasha Khoperia
 Chief Financial Officer

Date: May 8, 2013

MFO Continental City Credit LLC
 STATEMENT OF CHANGES IN EQUITY
 For the period ended December 31, 2012
 Amounts expressed in GEL



	Statutory Capital	Accumulated Loss	Total
Balance as at March 5, 2012	0	0	0
Increase in share capital	4,800,000	-	4,800,000
Period Result	-	(193,128)	(193,128)
Balance as at December 31, 2012	4,800,000	(193,128)	4,606,872

Giorgi Gogvadze
 Chief Executive Officer

Lasha Khoperia
 Chief Financial Officer

Date: May 8, 2013

NOTES TO FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Microfinance Organization Continental City Credit LLC was founded in 2012 and registered on 6 March 2012. Its Legal and actual address is 23-23a, Chanchavadze ave., Tbilisi. As required by the Georgian legislation the company registered by the NBG as microfinance organization at 3 May, 2012 and was given the registration number 670512. The owners of Microfinance Organization Continental City Credit LLC as at December 31, 2012 are:

	Share %
Sergi Nakaidze	50%
Marli Capital Georgia	30%
David Uzarashvili	20%
	<u>100%</u>

Main activity of the Company is issuance of Small and Medium-sized loans under movable and immovable property guarantee.

2 BASES OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Company maintains its accounting records in accordance with Georgian accounting regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with IFRS.

3 PRESENTATION CURRENCY

These financial statements are presented in Georgian Lari (GEL), unless otherwise stated.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits and calls with banks, as well as short-term investment instruments with an initial lifetime of 90 days or less. Bank overdrafts, if any, are shown as other liabilities on the balance sheet.

4.2 Loans to customers

Loans granted by the Company are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

4.3 Property, plant and equipment

Tangible items that are held for use in supply of services, for rental to others, or for administrative purposes and are expected to be used during more than one period are recognized in the balance sheet as property and equipment. Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

NOTES TO FINANCIAL STATEMENTS (Continued)

4.3 Property, plant and equipment (continued)

The repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the individual assets. Depreciation commences on the first day of the next month the asset was acquired. The estimated useful lives are as follows:

<u>Asset group</u>	<u>Estimated useful life</u>
Computers	4 years
Vehicles	5 years
Furniture and Office	5 years
Other fixed assets	5 years

Leasehold improvements are depreciated over the shorter of estimated useful life of the improvements and of the lease contract term.

4.4 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible asset are recognized in the balance sheet if, and only if (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and (b) the cost of the asset can be measured reliably. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Amortization is calculated using the straight-line method and amortization rate is 15 % annual.

4.5 Income taxes

Profit for the period is taxable at a rate of 15% in accordance with Georgian regulatory legislation on taxation. Income tax expense is calculated and accrued for in the financial statements on the basis of information available at the moment of the preparation of the financial statements, and estimates of income tax performed by the management in accordance with Georgian regulatory legislation on taxation. According to Georgian legislation, tax losses are carried forward for 5 years.

Deferred income tax is calculated using the comprehensive liability method. This method calculates a deferred tax asset or liability on the temporary differences that arise between the recognition of items in the balance sheet of the company used for tax purposes and the one prepared for IFRS reporting purposes. Changes in deferred tax balance are included in income tax expense / benefit line in the profit and loss statement.

4.6 Borrowings

Borrowings are initially recognized at the amount received net of any transaction costs directly attributable to the acquisition of loan. Such interest bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

NOTES TO FINANCIAL STATEMENTS (Continued)

4.7 Other Liabilities

Other liabilities are recognized initially at fair value and subsequently measured at amortized cost.

4.8 Interest income and expense recognition

Interest income and expense are recorded in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided or received.

When a client fails to pay interest for more than 30 days from the due date interest accrued on such loan is removed from the balance sheet to the off-balance-sheet account and recognition of interest income in the income statement ceases. If later such client pays interest due such interest is recognized in income statement in the period when it is paid.

4.9 Foreign currency translation

Transactions denominated in foreign currency are recorded at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of comprehensive income using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into Georgian Lari at the official exchange rate of the NBG (National Bank of Georgia) at the balance sheet date.

As at December 31, 2012 the principal rate of exchange used for translating foreign currency balances was:

Currency	Exchange Rate
US Dollar (USD)	1.6567
Euro (EUR)	2.1825
Russian Ruble (RUB)	0.0545
United Kingdom Pound (GBP)	2.6653

5 CASH AND CASH EQUIVALENTS	Note	31-Dec-12
Cash on hand	5.1	46,245
Cash in bank	5.1	219,022
Total		265,267

5.1 Breakdown of Cash and Cash equivalents balances by currency	31-Dec-12
Georgian Lari (GEL)	22,079
US Dollar (USD)	237,589
Euro (EUR)	3,539
United Kingdom Pound (GBP)	1,732
Russian Ruble (RUB)	328
Total	265,267

NOTES TO FINANCIAL STATEMENTS (Continued)

6 LOANS TO CUSTOMERS	31-Dec-12
Up to 1 Year	1,402,636
1 to 3 Years	1,104,674
3 to 5 Years	1,653,901
Over 5 Years	43,074
Total	4,204,285

Almost all loans to customers are collateralized by immovable properties. Only 2% of loans are secured by vehicles and 1% by gold. There are no unsecured loans issued to customers. Loans to customers bear interest rates in the range of 25-86% p.a. depending on loan amount and type of collateral. All loans are issued in USD.

In addition to the amounts of interest receivable recognized in the balance sheet additional GEL 19,769 of interest receivable is recorded on off-balance-sheet accounts which represents interest receivable on loans overdue more than 30 days.

The management believes that it is almost certain that the company will receive interest receivable recorded on off-balance-sheet account, however this amounts are not recognized directly in balance sheet and income statement, because National Bank of Georgia requests such accounting treatment. The management realizes that this is departure from IFRS but believes such presentation is more relevant for financial statement users.

7 PROPERTY, PLANT AND EQUIPMENT

<i>Year 2012</i>	Computers	Vehicles	Furniture and Office Equipment	Other fixed assets	Leasehold improvements	TOTAL
Historical Cost						
Balance at 5-Mar-12	0	0	0	0	0	0
Additions	43,897	27,771	48,379	50,152	215,654	385,853
Balance at 31-Dec-12	43,897	27,771	48,379	50,152	215,654	385,853
Accumulated Depreciation						
Balance at 5-Mar-12	0	0	0	0	0	0
Charge for the period	(6,655)	(2,814)	(3,846)	(4,023)	(18,474)	(35,812)
Balance at 31-Dec-12	(6,655)	(2,814)	(3,846)	(4,023)	(18,474)	(35,812)
Net Book Value						
Balance at 5-Mar-12	0	0	0	0	0	0
Balance at 31-Dec-12	37,242	24,957	44,533	46,129	197,180	350,041

NOTES TO FINANCIAL STATEMENTS (Continued)

8 INTANGIBLE ASSETS

<i>Year 2012</i>	Computer Software	TOTAL
Historical Cost		
Balance at 5-Mar-12	0	0
Additions	88,766	88,766
Balance at 31-Dec-12	88,766	88,766
Accumulated Amortization		
Balance at 5-Mar-12	0	0
Charge for the period	(11,123)	(11,123)
Balance at 31-Dec-12	(11,123)	(11,123)
Net Book Value		
Balance at 5-Mar-12	0	0
Balance at 31-Dec-12	77,643	77,643

Intangible assets comprise of "Alta Bank 2000" as core banking system and "ALTA LMS" as core loan management system.

9 DEFERRED TAXES

31-Dec-12

Property and equipment	(25,010)
Intangibles	(329)
Other assets	2,965
Other liabilities (interest payable)	181
Accumulated tax losses deductible from future taxable profits	55,804
Total deferred tax asset / (liability)	33,611

The reasons which give raise deferred taxes on particular balance sheet items are briefly described below:

PP&E - Georgian tax legislation allows the Company to expense the cost of acquired items of PP&E (except for leasehold improvements) in the year the assets were acquired and the Company uses this method for tax purposes. Also, depreciation method and rates for taxation purposes differ from those used in IFRS financial statements and this too creates differences between taxable base of PP&E and their carrying amounts in IFRS balance sheet.

Intangible assets - Amortization method and rates for taxation purposes differ from those used in IFRS financial statements and this created differences between taxable base of intangibles and their carrying amounts in IFRS balance sheet.

Other assets - Interest receivable overdue more than 30 days is not recognized in this financial statements however for taxation purposes such interest is included in taxable incomes.

NOTES TO FINANCIAL STATEMENTS (Continued)

9 DEFERRED TAXES (Continued)

Other liabilities (interest payable) - Interest payable to individual or non-resident company is deductible for tax purposes on a cash basis, while in financial statements they are recognized in accordance with accruals method.

Accumulated tax losses - According to Georgian tax legislation accumulated tax losses may be carried forward and deducted from taxable profit in next 5 years.

10 OTHER ASSETS	31-Dec-12
Advance payments to suppliers	22,363
Receivables from money transfer companies	2,154
Inventories	99
Total	24,616

11 BORROWINGS

The company has the borrowing from two physical persons. All the borrowings are denominated in USD, are payable within 1 year after balance sheet date and bear fixed annual interest rates of 10% to 14%. The borrowings are unsecured.

12 OTHER LIABILITIES	31-Dec-12
Liabilities to Supplies	57,754
Liabilities to clients	16,935
Total	74,689

13 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

13 ADMINISTRATIVE AND OTHER OPERATING EXPENSES	2012
Staff cost	550,866
Advertisement cost	100,186
Office rent	144,984
Communication and utility	89,524
Office equipment	70,369
Depreciation and amortization	46,935
Legal cost	45,252
Stationery cost	6,284
Vehicles maintenance Cost	5,407
Security cost	4,547
Tax expenses	1,782
Other expenses	7,127
Total	1,073,263

NOTES TO FINANCIAL STATEMENTS (Continued)

14 CURRENCY RISK

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

	GEL	USD	EUR	GBP	RUB	Total
Cash and cash equivalents	22,079	237,589	3,539	1,732	328	265,267
Loans to customers	-	4,204,285	-	-	-	4,204,285
Interest receivable	-	60,388	-	-	-	60,388
Other financial assets	-	2,154	-	-	-	2,154
Total	22,079	4,504,416	3,539	1,732	328	4,532,094
Borrowings	-	331,340	-	-	-	331,340
Interest payable	-	1,209	-	-	-	1,209
Tax liabilities	1,741	-	-	-	-	1,741
Other liabilities	57,754	16,935	-	-	-	74,689
Total	59,495	349,484	0	0	0	408,979
Currency Position	(37,416)	4,154,932	3,539	1,732	328	4,123,115

As the above table shows the company is exposed mainly to currency risk arising from possible changes of USD/GEL exchange rate. However management does not expect material negative changes in USD/GEL exchange rate.

15 INTEREST RATE RISK

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

All loans issued to customers are with fixed interest rates, the Company has no significant interest-bearing liabilities and those existing liabilities have fixed interest rates. Thus, management believes the Company has no significant exposure to interest rate risk.

16 LIQUIDITY RISK

Liquidity risk can be defined as the risk stemming from the lack of marketability of an asset that cannot be turned in cash quickly enough to prevent or minimize a loss. This risk is in direct connection with maturity mismatch of an assets and liabilities.

NOTES TO FINANCIAL STATEMENTS (Continued)

16 LIQUIDITY RISK (Continued)

The table below shows financial assets and liabilities as at 31 December, 2012 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used.

	Up to 1 Year	1 to 3 Year	3 to 5 Year	More than 5 years	Total
Cash and cash equivalents	265,267	-	-	-	265,267
Loans to customers	1,402,636	1,104,674	1,653,901	43,074	4,204,285
Interest receivable	60,388	-	-	-	60,388
Other financial assets	2,154	-	-	-	2,154
Total	1,730,445	1,104,674	1,653,901	43,074	4,532,094
Borrowings	331,340	-	-	-	331,340
Interest payable	1,209	-	-	-	1,209
Tax liabilities	1,741	-	-	-	1,741
Other liabilities	74,689	-	-	-	74,689
Total	408,979	0	0	0	408,979
Liquidity gap	1,321,466	1,104,674	1,653,901	43,074	4,123,115

17 CAPITAL ADEQUACY

The National Bank of Georgia sets capital adequacy requirements for micro financial organizations. As required by the NBG, minimum amount of share capital for micro financial organization must be 250,000 Georgian Lari fully paid in cash. As at 31/12/2012 share capital of Continental City Credit LLC is 5,000,000 (4,800,000 paid in) Georgian Lari.

18 AFTER BALANCE SHEET EVENT

There have been no after balance sheet events that require any additional adjustments or disclosures in these financial statements.

19 GOING CONCERN CONSIDERATIONS

At the end of reporting period, management of the Company considers the Company's ability to continue as a going concern, in order to ensure that presentation of financial statements based on a going concern assumption is relevant in the circumstances. The management is convinced that the Company's functionality as going concern is not threatened and they don't have any plans for company liquidation or significant restriction of its activity.

NOTES TO FINANCIAL STATEMENTS (Continued)

20 RELATED PARTY TRANSACTIONS

In the normal course of business the Company enters into transactions with related parties. The details of the related party transactions for the financial period reported are provided below:

Related party	Salary	Bonuses	Insurance	TOTAL
Management	275,000	4,375	3,570	282,945
TOTAL	275,000	4,375	3,570	282,945

The above amounts represent remuneration paid to three directors and a chairman of the supervisory board.

21 CONTINGENCIES AND COMMITMENTS

21.1 Taxation

Georgian tax, currency and customs legislation is subject to varying interpretations and changes that can occur frequently. The relevant regional and state authorities may challenge management's interpretation of such legislations, transactions applied and the Company's activities. It is suggested that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, additional taxes, penalties and interest may be assessed.

21.2 Legal proceedings

The Company has not been involved in any legal proceeding during the year or at the balance sheet date.