MUNICIPAL DEVELOPMENT FUND OF GEORGIA

Financial Statements and
Independent Auditor's Report
For the Period Ended 31 December 2017

MUNICIPAL DEVELOPMENT FUND OF GEORGIA

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MUNICIPAL DEVELOPMENT FUND OF GEORGIA

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

Management is responsible for the preparation of the financial statements that present fairly the financial position of Municipal Development Fund of Georgia (the "Fund") as at 31 December 2017, and the results of its operations, changes in reserves and cash flows for the year ended 31 December 2017, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements of the fund for the year ended 31 December 2017 were approved by management on 29 June 2018.

On behalf of the Management:

Juansher Burchuladze	**Natalie Godziashvili**
Acting Executive Director	**Head of Financial Management and Investments Unit**
29 June 2018	29 June 2018

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INDEPENDENT AUDITOR'S REPORT

To the management of the Municipal Development Fund of Georgia

Opinion

We have audited the financial statements of Municipal Development Fund of Georgia (the "Fund"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

John Robinson
On behalf of Deloitte and Touche LLC

Deloitte & Touche

29 June 2018
Tbilisi, Georgia

MUNICIPAL DEVELOPMENT FUND OF GEORGIA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
(in GEL)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Income from loans to municipalities	5	5,294,578	3,446,998
Bank interest income		4,408,606	3,840,723
Other interest income		1,721,996	1,907,322
Finance costs		(1,909,238)	(73,677)
Other (expense)/income	6	(2,827,948)	5,364,449
(Loss)/gain from exchange rate differences	7	(2,267,087)	6,309,470
Administrative expenses	8	(5,039,164)	(4,758,997)
(Loss)/profit before income tax		**(618,257)**	**16,036,288**
Income tax expense	9	(426,575)	(959,066)
Net (loss)/profit for the period		**(1,044,832)**	**15,077,222**

On behalf of the Management:

Juansher Burchuladze
Acting Executive Director

29 June 2018

Natalie Godziashvili
Head of Financial Management and Investments Unit

29 June 2018

The notes on pages 8-35 form an integral part of these financial statements.

MUNICIPAL DEVELOPMENT FUND OF GEORGIA

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
(in GEL)

	Notes	31 December 2017	31 December 2016
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	10	2,277,570	2,495,049
Intangible assets		313,417	281,942
Loans to municipalities	11	47,777,823	25,485,644
Other loans disbursed	12	11,969,704	30,608,993
Deferred income tax asset	9	86,487	-
TOTAL NON-CURRENT ASSETS		**62,425,001**	**58,871,628**
CURRENT ASSETS			
Loans to municipalities	11	8,775,885	6,016,231
Other loans disbursed	12	5,197,808	5,558,628
Other current assets	14	3,630,230	3,445,948
Current income tax asset		-	42,139
Receivables and advances	13	99,896,827	94,056,012
Deposits in banks	16	36,000,000	30,000,000
Cash and cash equivalents	15	230,865,327	139,608,316
TOTAL CURRENT ASSETS		**384,366,077**	**278,727,274**
TOTAL ASSETS		**446,791,078**	**337,598,902**
RESERVES AND LIABILITIES			
RESTRICTED RESERVES			
Sources of financing	20	303,662,490	211,878,375
Loan revolving fund	21	27,446,276	31,013,647
UNRESTRICTED RESERVES			
Retained earnings		57,505,415	58,550,247
TOTAL RESERVES		**388,614,181**	**301,442,269**
LIABILITIES			
NON-CURRENT LIABILITIES			
Grants related to assets	17	2,038,490	2,072,538
Deferred income tax liability	9	-	349,892
Long-term debt	18	27,397,811	14,693,589
TOTAL NON-CURRENT LIABILITIES		**29,436,301**	**17,116,019**
CURRENT LIABILITIES			
Current portion of long-term debt	18	2,113,759	-
Trade and other payables	19	26,570,306	19,040,614
Current income tax liability		56,531	-
TOTAL CURRENT LIABILITIES		**28,740,596**	**19,040,614**
TOTAL RESERVES AND LIABILITIES		**446,791,078**	**337,598,902**

On behalf of the Management:

Juansher Burchuladze
Acting Executive Director

29 June 2018

Natalie Godziashvili
Head of Financial Management and Investments Unit

29 June 2018

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MUNICIPAL DEVELOPMENT FUND OF GEORGIA

STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 DECEMBER 2017
(in GEL)

	Note	Sources of financing	Loan revolving fund	Retained Earnings	Total reserves
31 December 2015		**195,387,832**	**27,566,775**	**43,473,025**	**266,427,632**
Profit for the year		-	-	15,077,222	15,077,222
Increase in loan revolving fund	21	-	3,446,872	-	3,446,872
Net financing of implemented projects	20	16,490,543	-	-	16,490,543
31 December 2016		**211,878,375**	**31,013,647**	**58,550,247**	**301,442,269**
Loss for the year		-	-	(1,044,832)	(1,044,832)
Increase in loan revolving fund	21	-	(3,567,371)	-	(3,567,371)
Net financing of implemented projects	20	91,784,115	-	-	91,784,115
31 December 2017		**303,662,490**	**27,446,276**	**57,505,415**	**388,614,181**

On behalf of the Management:

Juansher Burchuladze
Acting Executive Director

29 June 2018

Natalie Godziashvili
Head of Financial Management and Investments Unit

29 June 2018

The notes on pages 8-35 form an integral part of these financial statements.

MUNICIPAL DEVELOPMENT FUND OF GEORGIA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in GEL)

	Note	31 December 2017	31 December 2016
Cash flow from operating activities:			
(Loss)/income after income tax		(1,044,832)	15,077,222
Adjustments for:			
Depreciation and amortisation expense	8	557,919	513,181
Finance costs	18	1,909,238	73,677
Recovery of assets previously written-off	8	-	(1,104,133)
Income from grants related to assets	17	(276,119)	(196,947)
Interest income		(11,425,180)	(9,195,044)
Income tax expense	9	426,575	959,066
Foreign exchange loss/(gain)	7	2,267,087	(6,309,470)
Operating loss before working capital changes		(7,585,312)	(182,448)
Change in receivables and advances	13	(5,684,676)	(34,736,781)
Change in other current assets	12	(184,282)	(3,424,783)
Change in deposits in banks	16	(6,000,000)	(7,400,000)
Change in payables	19	3,386,379	1,183,320
Cash used in operations		(16,067,891)	(44,560,692)
Income tax paid		(764,284)	(316,106)
Net cash used in operating activities		**(16,832,175)**	**(44,876,798)**
Cash flows from investing activities			
Purchase of equipment and intangible assets		(129,843)	(248,205)
Interest received from municipalities and banks		9,409,812	8,994,679
Net cash flows generated from investing activities		**9,279,969**	**8,746,474**
Cash flows from financing activities			
Projects financing, net		88,216,744	16,490,543
Repayment/(issuance) of other loans, net	12	20,108,377	(7,012,705)
Loans provided to municipalities	11	(23,055,162)	(3,446,872)
Receipt of long-term debt	18	12,374,786	14,577,890
Net cash from financing activities		**97,644,745**	**20,608,856**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		90,092,539	(15,521,468)
Effect of foreign exchange rate changes on cash and cash equivalents		1,164,472	12,821,677
CASH AND CASH EQUIVALENTS, at beginning of the period	15	**139,608,316**	**142,308,107**
CASH AND CASH EQUIVALENTS, at end of the period	15	**230,865,327**	**139,608,316**

On behalf of the Management:

Juansher Burchuladze
Acting Executive Director

29 June 2018

Natalie Godziashvili
Head of Financial Management and Investments Unit

29 June 2018

The notes on pages 8-35 form an integral part of these financial statements.

1. GENERAL INFORMATION

Municipal Development Fund of Georgia (the "Fund' or "MDF") was established on 7 June 1997 by the Presidential Decree N° 294 "On management of funds for the development of municipal sector in Georgia. The Fund is a legal entity of public law, the objective of which is to support strengthening institutional and financial capacity of local government units, investing financial resources in local infrastructure and services, improving on sustainable basis the primary economic and social services for the local population and the provision of low-interest loans to legal entities and physical persons of Georgia in the framework of the Government Program. The founder and governing body of the fund is the government of Georgia. The Fund is cooperating with all large investment banks and financial institutions operating in Georgia.

2. STATEMENT OF COMPLIANCE

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

2.1 Basis of preparation

These financial statements have been prepared on the assumption that the Fund is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in GEL *("GEL")*, unless otherwise indicated.

The financial statements are prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

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

Functional currency. Items included in the financial statements are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency"). The functional currency of the Fund is the Georgian Lari ("GEL"). The presentational currency of the financial statements of the Fund is the GEL.

Offsetting. Financial assets and financial 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 settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Fund.

The principal accounting policies are set out below.

2.2 Interest income

Interest income on loans to municipalities is allocated to accounting periods so as to reflect a constant periodic rate of return on the Fund's net investment outstanding in respect of the loans. Interest income is recognized based on an accrual basis.

2.3 Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.4 Financial instruments

Financial assets and financial liabilities are recognised when a Fund becomes a party to the contractual provisions of the instrument.

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

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' (HTM) investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The principal financial assets of the Fund are cash and cash equivalents and loans disbursed to municipalities, which are classified as loans and receivables.

Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including cash and cash equivalents and loans disbursed to municipalities) are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

The Fund derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The difference between the carrying amount of the financial asset derecognised and the consideration received and receivable is recognised in statement of comprehensive income.

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

For Fund's financial assets, objective evidence of impairment could include:

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

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Fund's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities
Financial liabilities are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The Fund derecognises financial liabilities when, and only when, the Fund's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in statement of comprehensive income.

2.5 Foreign currencies
In preparing the financial statements, transactions in currencies other than the Fund's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

2.6 Corporate Income tax
Corporate Income tax includes current and deferred taxes. Current Corporate Income tax is applied at the rate of 15% on taxable income generated by the Fund during the taxation period. Deferred Corporate Income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The Deferred Corporate Income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortization and depreciation on the Fund's non-current assets, the treatment of temporary provisions and accruals.

2.7 Property Plant and Equipment

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

Equipment and machinery	- 5 years
Motor vehicles	- 5 -10 years
Furniture and other	- 5 -10 years
Leasehold improvement	- 20 years

Depreciation is calculated starting with the following month after the asset is put into operation or engaged in commercial activity. The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of equipment is the higher of an asset's net selling price and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement in the impairment caption.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognized.

2.8 Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

2.9 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and term deposits with the commercial banks and state treasury with original maturity of less or equal to 90 days and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

2.10 Grants related to assets

Grants related to assets are recognised as deferred income when they are received. Recognition in Profit and Loss is done on systematic basis over the periods in which the entity recognises expenses for the related costs for which grants are intended to compensate.

The accounting treatment for the grant of indefinite use of assets is as follows: to account for the amount of the grant as deferred income in the profit and loss account in instalments, expected useful life (rate consistent with the depreciation policy) of the related asset is used to arrive at the installment to be credited to profit and loss for the accounting period.

2.11 Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are initially recognised at fair value less transaction costs. Subsequently they are measured at amortised cost using the effective interest method.

Derecognition of financial liabilities
The Fund derecognises financial liabilities when, and only when, the Fund's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.12 Reserves
Reserves are restricted if the related funds are restricted by the donors for implementation of specific projects. In the statement of changes in reserves the restricted reserves are composed of the sources of financing and the loan revolving fund.

Sources of financing - Sources of financing represent the net cumulative financing received and the respective expenditures incurred for the implementation of the projects. Project financing is recognised as sources of funds in the period when the cash inflow can be reasonably estimated and they become available and measurable. Expenditure is recognised on an accruals basis as a use of project funds when liabilities are incurred.

Loan revolving fund - Loan revolving fund represents donor financing received for the purposes of providing loan financing to municipalities. In the statement of changes in reserves increases or decreases of the loan revolving fund are presented net.

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

Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements:

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

Amendments to IAS 7 *Disclosure Initiative*

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

The Fund's liabilities arising from financing activities consist of borrowings (note 18) and certain other financial liabilities (note 19). A reconciliation between the opening and closing balances of borrowings is provided in note 18. Apart from the additional disclosure in note 18, the application of these amendments has had no impact on the Fund's financial statements.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

The Fund has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

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

Annual Improvements to IFRSs - 2014-2016 Cycle

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

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.
The application of these amendments has had no effect on the Fund's financial statements.

New and revised IFRSs in issue but not yet effective

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

- IFRS 9 *Financial Instruments*[1];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[1];
- IFRIC 23 *Uncertainty Over Income Tax Treatments*[2];
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1];
- Amendments to IFRS 9 – *Prepayment Features With Negative Compensation*[2];
- Annual Improvements to IFRSs 2015-2017 Cycle[2].

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been intro

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

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

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Entities can apply the Interpretation either fully retrospectively (if it is possible without the use of hindsight) or to apply modified retrospective approach without restatement of comparatives.

The management of the Fund does not anticipate that the application of this IFRIC will have a material impact on the Fund's financial statements as the Fund currently uses the approach to recognition of uncertain tax position, which is consistent with IFRIC 23.

Annual Improvements to IFRSs 2014-2016 Cycle

The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Fund. The package also includes amendments to IFRS 12 which is mandatorily effective for the Fund in the current year - see the details of application in section Amendments to IFRSs affecting amounts reported in the financial statements.

The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018. The management of the Fund does not anticipate that the application of the amendments in the future will have any impact on the Fund's financial statements as the Fund is neither a first-time adopter of IFRS nor a venture capital organisation. Furthermore, the Fund does not have any associate or joint venture that is an investment entity.

Annual Improvements to IFRSs 2015-2017 Cycle

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

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

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Fund's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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

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

Impairment allowance

a) Assets carried at amortized cost
The Fund assesses at each reporting date whether there is objective evidence that a group of financial assets is impaired. A group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the group of financial assets that can be reliably estimated.

The criteria that the Fund uses to determine that there is objective evidence of an impairment loss include:

(a) adverse changes in the payment status of borrowers in the portfolio of financial assets, i.e. financial assets whose interest and principal payments are past due;
(b) termination of agreement due to a breach of contract by the borrower, such as a default or delinquency in interest, principal and/or penalty payments.

The Fund assesses whether objective evidence of impairment exists collectively for a group of financial assets with similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Fund and historical loss experience for assets with credit risk characteristics similar to those in the Fund. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, levels of arrears, or other factors indicative of changes in the probability of losses and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the management to reduce any differences between loss estimates and actual loss experience.

When a receivable is uncollectible, it is written off against the related allowance for receivable impairment. Such receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the accounts receivable aging), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

b) Renegotiated financial assets
Financial assets that are subject to collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due but are treated as new assets. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

Deferred income tax asset
Deferred income tax is provided in full using the liability method for tax losses carried forward and on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet.

Deferred taxation relates to the future tax consequences of all events that have been recognised in the Fund`s financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Taxation
Georgian tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Fund may be assessed additional taxes, penalties and interest. The Fund believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for six years.

5. INCOME FROM LOANS TO MUNICIPALITIES

	31 December 2017	**31 December 2016**
Interest income	5,277,487	3,438,546
Penalty income	17,091	8,452
Total	**5,294,578**	**3,446,998**

The breakdown of interest income from loans to municipalities is as follows:

Municipality	**For the year ended 31 December 2017**	**For the year ended 31 December 2016**
Kutaisi	467,596	200,478
Rustavi	348,662	377,695
Zugdidi City	296,995	333,529
Kobuleti	280,665	313,723
Zestaponi	217,515	80,151
Gori	201,473	180,328
Gurjaani	187,601	195,245
Mestia	184,129	95,794
Sighnaghi	176,306	157,351
Kaspi	163,046	86,093
Tsalenjikha	151,999	130,171
Tetritskaro	147,723	123,645
Bolnisi	137,424	142,722
Telavi City	125,707	123,760
Martvili	122,728	62,429
Dusheti	119,179	122,658
Mtskheta	105,383	90,156
Akhalkalaki	96,201	73,264
Marneuli	96,031	84,656
Lagodekhi	90,556	69,916
Khobi	80,342	70,382
Gardabani	68,950	51,124
Telavi	66,734	46,171
Gori City	64,838	1,057
Batumi	56,281	72,274
Mtskheta City	55,096	40,720
Ambrolauri	54,196	-
Akmeta	52,937	-
Borjomi	49,183	30,225
Ozurgeti City	44,043	382
Zugdidi	40,485	-
Chokhatauri	40,485	-

Municipality	For the year ended 31 December 2017	For the year ended 31 December 2016
Kvareli	37,406	-
Chiatura	37,406	-
Sachkhere	37,406	-
Samtredia	35,266	-
Akhaltsikhe City	32,389	2,634
Lentekhi	29,283	3,024
Oni	28,838	2,635
Akhaltsikhe	28,740	-
Tsageri	27,963	-
Adigeni	27,963	-
Dmanisi	27,963	-
Tsalka	27,963	-
Lanchkhuti	27,963	-
Tskaltubo	27,963	-
Terjola	27,963	-
Tkibuli	27,963	-
Vani	27,963	-
Khashuri	27,410	-
Sagarejo	26,839	2,753
Bagdati	26,787	-
Dedoplistskaro	25,822	-
Abasha	25,822	-
Senaki	25,822	-
Chkhorotsku	25,822	-
Khoni	25,822	-
Aspindza	24,884	-
Ninotsminda	24,884	-
Kareli	24,884	-
Kharagauli	24,883	-
Tianeti	20,348	-
Kazbegi	15,440	-
Keda	13,474	-
Ozurgeti	9,654	2,880
Poti	-	68,521
Total:	**5,277,487**	**3,438,546**

6. OTHER (EXPENSE)/INCOME

	31 December 2017	31 December 2016
Income from grants related to assets	276,119	196,947
Accrual of liability to state budget related to bank guarantees received	(3,287,606)	(35,918)
Tax expenses other than income tax	(1,067,592)	-
Income from bank guarantees	-	3,354,625
Other	1,251,131	1,848,795
Total	**(2,827,948)**	**5,364,449**

7. (LOSS)/GAIN FROM EXCHANGE RATE DIFFERENCES

	31 December 2017	31 December 2016
Foreign exchange gain	11,254,606	21,291,486
Foreign exchange loss	(13,521,693)	(14,982,016)
Net effect of exchange rate differences	**(2,267,087)**	**6,309,470**

8. ADMINISTRATIVE EXPENSE

	31 December 2017	31 December 2016
Employee benefits	3,640,496	4,225,165
Depreciation and amortization	557,919	513,181
Insurance expenses	289,768	290,129
Trips, transportation, advertising and representation expenses	145,685	379,897
Office expenses	129,200	132,755
Representative expenses	33,587	22,948
Audit and consulting	28,405	27,675
Communication costs	6,939	10,982
Recovery of assets previously written off	-	(1,104,133)
Other	207,165	260,398
Total	**5,039,164**	**4,758,997**

9. INCOME TAX EXPENSE

The tax rate used for the 2017 and 2016 reconciliations and assessment of deferred taxes below is the corporate tax rate of 15% payable by state entities in Georgia on taxable profits under the tax law in Georgia (government organizations are not affected by new Estonian Tax model, effective after 1 January, 2017). The main components of the income tax for the year ended 31 December 2017 and period ended 31 December 2016 were as follows:

	31 December 2017	31 December 2016
Current income tax expense	862,954	540,188
Deferred income tax (benefit)/expense	(436,379)	418,878
Corporate income tax charged to the statement of profit or loss and other comprehensive income	**426,575**	**959,066**

Actual corporate income tax charge, if compared with theoretical calculations:

	31 December 2017	31 December 2016
(Loss)/profit before tax	**(618,257)**	**16,036,288**
Tax (expense)/benefit at the applicable rate of 15%	92,739	(2,405,443)
Effect of income that is exempt from taxation	661,291	2,300,092
Effect of expenses that are not deductible in determining taxable profit	(1,180,605)	(853,715)
Actual corporate income tax expense for the reporting period	**426,575**	**959,066**

Temporary differences as at 31 December 2017 and 31 December 2016 were due to:

	31 December 2017	31 December 2016
Deferred corporate income tax asset (liability)		
Property, plant and equipment	118,518	83,456
Intangible assets	1,032	1,032
Receivables and advances	(123,571)	(434,380)
Long-term debt	90,508	-
Net deferred corporate income tax asset (liability)	**86,487**	**(349,892)**

As at 31 December 2017 and 2016, deferred tax asset (liability) was as follows:

	2017	2016
Deferred tax (liability)/asset as at 1 January	**(349,892)**	**68,986**
Change in deferred income tax balances recognized in profit or loss	436,379	(418,878)
Deferred income tax asset/(liability) as at 31 December	**86,487**	**(349,892)**

10. PROPERTY PLANT AND EQUIPMENT

	Land	Buildings	Leasehold improvements	Equipment and machinary	Motor vehicles	Furniture and other fixtures	Total
Cost							
As at January 1, 2016	**857,519**	**2,367,127**	**1,181,300**	**1,207,889**	**1,534,272**	**281,793**	**7,429,900**
Additions	-	-	3,955	86,000	18,460	29,850	138,265
Write-off	-	-	-	(108,382)	-	(99,767)	(208,149)
As at December 31, 2016	**857,519**	**2,367,127**	**1,185,255**	**1,185,507**	**1,552,732**	**211,876**	**7,360,016**
Additions	-	-	-	155,860	478,950	10,341	645,151
Disposals	-	-	-	(7,533)	(410,982)	(7,961)	(426,476)
As at December 31, 2017	**857,519**	**2,367,127**	**1,185,255**	**1,333,834**	**1,620,700**	**214,256**	**7,578,691**
Accumulated depreciation							
As at January 1, 2016	**315,325**	**946,850**	**1,167,369**	**862,042**	**1,036,434**	**236,907**	**4,564,927**
Charge for the year	39,416	118,356	13,931	173,792	88,996	73,700	508,191
Eliminated on disposal	-	-	-	(108,382)	-	(99,769)	(208,151)
As at December 31, 2016	**354,741**	**1,065,206**	**1,181,300**	**927,452**	**1,125,430**	**210,838**	**4,864,967**
Charge for the year	39,416	118,356	1,318	160,473	187,549	3,633	510,745
Eliminated on disposal	-	-	-	(2,418)	(71,958)	(215)	(74,591)
As at December 31, 2017	**394,157**	**1,183,562**	**1,182,618**	**1,085,507**	**1,241,021**	**214,256**	**5,301,121**
Carrying amount as at December 31, 2017	**463,362**	**1,183,565**	**2,637**	**248,327**	**379,679**	**-**	**2,277,570**
Carrying amount as at December 31, 2016	**502,778**	**1,301,921**	**3,955**	**258,055**	**427,302**	**1,038**	**2,495,049**

In the year 2007, MDF received from the Ministry of Economy of Georgia an administrative building and land, located at 150 Agmashenebeli Avenue, Tbilisi, Georgia, under the terms of "usufruct". According to the agreement, MDF can use the building for the whole period of the Fund's existence. The Building together with the attached land was not recognized in entity's financial statements in previous reporting periods. The transfer of the building is the scope of IAS 20. Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. The grants may take various forms, including a transfer of non-monetary resources for the entity's own use.

Under IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors - an entity should select an accounting policy and apply it consistently to all non-monetary grants.

11. LOANS TO MUNICIPALITIES

	31 December 2017	31 December 2016
Current portion	8,775,885	6,016,231
Long-term portion	47,777,823	25,485,644
Total:	**56,553,708**	**31,501,875**

Current portion of loans to municipalities include the following:

	31 December 2017	31 December 2016
Principal receivable	6,290,986	5,528,003
Interest receivable	2,463,193	480,676
Penalties receivable	21,706	7,552
Total:	**8,775,885**	**6,016,231**

The breakdown of loans to municipalities as of 31 December 2017 is as follows:

Municipality	Current Portion	Non-current portion	Total 2017
Batumi	158,083	233,560	391,643
Rustavi	844,654	2,027,452	2,872,106
Poti	424,527	584,911	1,009,438
Telavi	427,442	1,387,207	1,814,649
Kazbegi	15,440	214,904	230,344
Dusheti	357,487	669,391	1,026,878
Borjomi	104,100	452,625	556,725
Akhalkalaki	216,144	766,158	982,302
Lagodekhi	194,462	722,658	917,120
Marneuli	215,533	694,981	910,514
Mtskheta	397,977	1,191,892	1,589,869
Khobi	184,647	577,162	761,809
Gurjaani	488,431	1,100,422	1,588,853
Bolnisi	371,326	796,560	1,167,886
Kobuleti	507,941	1,680,866	2,188,807
Gardabani	139,786	570,857	710,643
Signagi	149,623	1,537,201	1,686,824
Oni	27,965	389,194	417,159
Lentekhi	53,689	389,194	442,883
Tsalenjikha	164,540	1,364,465	1,529,005
Ambrolauri	54,196	754,317	808,513
Akhaltsikhe	60,261	838,726	898,987
Kaspi	139,857	1,453,412	1,593,269
Sagarejo	25,823	359,400	385,223
Zugdidi	759,220	2,199,066	2,958,286
Gori	243,653	2,898,367	3,142,020
Ozurgeti	53,106	739,146	792,252
Mestia	156,274	1,694,754	1,851,028
Martvili	105,282	1,135,212	1,240,494
Tetritskaro	119,062	1,338,657	1,457,719
Akmeta	37,406	520,625	558,031
Khashuri	27,410	359,400	386,810
Abasha	25,822	359,400	385,222
Adigeni	27,963	389,194	417,157
Aspindza	24,884	346,336	371,220
Bagdati	26,787	372,820	399,607
Dedoplistskaro	25,822	359,400	385,222
Samtredia	35,266	490,832	526,098
Dmanisi	27,963	389,194	417,157
Vani	27,963	389,194	417,157
Terjola	27,963	389,194	417,157

Municipality	Current Portion	Non-current portion	Total 2017
Tianeti	20,348	283,209	303,557
Lanchkhuti	27,963	389,194	417,157
Ninotsminda	24,884	346,336	371,220
Sachkhere	37,406	520,626	558,032
Senaki	25,822	359,398	385,220
Tkibuli	27,963	389,194	417,157
Kareli	24,884	346,336	371,220
Keda	13,474	187,528	201,002
Kvareli	37,406	520,626	558,032
Chokhatauri	40,485	563,482	603,967
Tsageri	27,963	389,194	417,157
Tsalka	27,964	389,194	417,158
Tskaltubo	27,963	389,194	417,157
Chiatura	37,406	520,626	558,032
Kharagauli	24,884	346,336	371,220
Khoni	25,822	359,400	385,222
Zestaponi	466,810	1,913,855	2,380,665
Chkhorotsku	25,822	359,400	385,222
Kutaisi	354,836	4,076,389	4,431,225
Total:	**8,775,885**	**47,777,823**	**56,553,708**

The breakdown of loans to municipalities as of 31 December 2016 is as follows:

Municipality	Current Portion	Non-current portion	Total 2016
Kutaisi	317,767	3,716,545	4,034,312
Batumi	140,291	391,643	531,934
Ozurgeti	15,198	1,371	16,569
Rustavi	716,321	2,064,158	2,780,479
Gori	128,308	1,474,362	1,602,670
Poti	126,211	367,627	493,838
Zugdidi City	608,839	1,866,724	2,475,563
Zestafoni	203,539	1,159,744	1,363,283
Telavi	115,266	213,074	328,340
Telavi City	211,227	715,877	927,104
Borjomi	67,568	139,568	207,136
Dusheti	291,063	586,707	877,770
Akhalqalaqi	155,892	378,333	534,225
Khobi	140,948	376,587	517,535
Akhaltsikhe City	14,270	-	14,270
Marneuli	177,572	440,281	617,853
Mtskheta	195,411	458,697	654,108
Mtskheta City	101,646	187,898	289,544
Oni	14,308	-	14,308
Sagarejo	15,392	-	15,392
Tsalenjikha	124,680	1,061,490	1,186,170
Kaspi	249,597	1,102,381	1,351,979
Bolnisi	303,882	736,725	1,040,607
Gardabani	98,408	279,482	377,890
Gurjaani	400,257	1,030,721	1,430,978
Lagodekhi	140,243	373,752	513,995
Lentekhi	28,434	2,652	31,086
Sighnaghi	125,275	1,269,668	1,394,942
Kobuleti	437,334	1,962,823	2,400,157
Mestia	198,044	1,260,813	1,458,857
Martvili	69,299	823,338	892,637
Tetritskaro	83,741	1,042,603	1,126,344
Total:	**6,016,231**	**25,485,644**	**31,501,875**

Loans to municipalities represent loans disbursed by MDF to local self-governments within the scope of different projects financed by International Financial Institutions through MDF's Loan revolving fund account (Note 21) in the amount of GEL 27,446,276 as of 31 December 2017 (2016: GEL 31,013,647) and Solid Waste Management Project (SWMP) which is financed through long-term debt (Note 18).

Loans are disbursed to municipalities for implementing the sub-projects for the rehabilitation and expansion of priority municipal services and infrastructure needs. Loans carry an interest rate of 11-12% and refinancing rate+0.5% (for loans under SWMP) and are disbursed for an average period of 10 years. Loans issued to municipalities are unsecured.

No provision for impairment of loans balances is made, as the management considers that there is no objective evidence of impairment since loans origination. There are no overdue balances as at the end of 2017 and 2016.

12. OTHER LOANS DISBURSED

	31 December 2017	31 December 2016
Current portion	5,197,808	5,558,628
Long-term portion	11,969,704	30,608,993
Total:	**17,167,512**	**36,167,621**

Current portion of other loans disbursed include the following:

	31 December 2017	31 December 2016
Principal receivable	5,179,111	5,558,628
Interest receivable	18,697	-
Total:	**5,197,808**	**5,558,628**

		Interest	31 December 2017	31 December 2016
Loans disbursed to Municipalities under Solid Waste Management Project	A	Refinancing rate+0.5%	723,300	14,693,399
Loans disbursed to Tbilisi City hall (Principal)	B	10.5%	9,702,083	12,743,813
Loans disbursed to United Water Supply Company of Georgia	C	2%	2,143,361	2,090,519
Loans disbursed to commercial banks	D	3%	4,580,071	6,639,890
Interest receivable from the loans to Tbilisi City hall	B		18,697	-
Total:			**17,167,512**	**36,167,621**

A: During the years 2017 and 2016 Government of Georgia (GoG) received a long-term loan from the European Bank for Reconstruction and Development (EBRD) for the execution of Solid Waste Management project. Under the subsidiary loan agreement between GoG and MDF, the loan proceeds were received by MDF. Further MDF transferred the funds to the suppliers under the Solid Waste Management project, when equipment is delivered to the relevant municipality, the loan agreement is formed between MDF and municipality and the balances are reclassified to Loans to municipalities, until then these amounts are recorded as Other loans disbursed.

The loan was received in Euro and further disbursed to Municipalities in Georgian Laris therefore causing foreign exchange effect of GEL 3,636,347 (2016: GEL 42,022) (Note 18).

B: In 2015 MDF disbursed loan to Tbilisi City Hall based on respective government decree. The loans proceeds should be used by the City Hall for capital investments, specifically, for rehabilitation and development of city roads.

C: During the previous years MDF had disbursed loans to the Poti Municipality for the infrastructure projects. The right of use of the related assets, together with the respective liability for the loan disbursed by MDF, was transferred from the municipality to the United Water Supply Company of Georgia by the Government decree.

D: MDF disbursed loans to the commercial banks from the proceeds of the grant received from KfW, a German government-owned development bank. The loans were disbursed to the commercial banks for the purpose of providing financial resources to private and municipal operators of existing small scale hydro power plants and geothermal facilities.

13. RECEIVABLES AND ADVANCES

	31 December 2017	31 December 2016
Financial assets		
Receivables from municipalities	4,030,095	1,171,053
Receivables from terminated contracts	3,537,072	3,547,258
Other receivables	1,777,789	1,358,458
	9,344,956	**6,076,769**
Non-financial assets		
Advances to suppliers	90,953,775	88,381,147
	90,953,775	**88,381,147**
Provision for doubtful receivable	(401,904)	(401,904)
Total:	**99,896,827**	**94,056,012**

Advances to contractors are paid within the scope of projects signed between the Government of Georgia and Donor Organizations for which the implementing agency is MDF. Advances to contractors include payments to construction companies in the amount of GEL 90,106,987 for the year ended 2017 (GEL 74,421,566 for the year ended 2016) for the construction and rehabilitation of the infrastructure in different regions, GEL 513,265 for acquisition of goods (GEL 13,595,187 for the year ended 2016), GEL 325,727 for supervision of construction works (GEL 336,208 for the year ended 2016) and GEL 7,796 for other services (GEL 28,186 for the year ended 2016). Advances are redeemed step-by-step on every certificate of works done presented by contractor and residual amount is fully redeemed when the performance of works and services is 80-90% complete. Contractors are obliged to provide bank guarantees for full amount of advances and a performance guarantee for 10% of total contract amount.

Receivables from municipalities represent the share of municipalities co-financing for the municipal projects implemented by MDF.

As at 31 December 2017 and 2016, movement in the provision for doubtful receivable was as follows:

	31 December 2017	31 December 2016
Provision for doubtfull receivable at the begining of the period	**401,904**	**401,904**
Additional provision recognised during the year	-	-
Provision for doubtfull receivable at the end of the period	**401,904**	**401,904**

14. OTHER CURRENT ASSETS

	31 December 2017	31 December 2016
Prepaid compensation for land	2,225,403	-
Bank Guarantee Receivable	1,296,100	3,308,500
Other	108,727	137,448
Total	**3,630,230**	**3,445,948**

Prepaid compensation for land represents funds reserved for payments to the owners of expropriated by the state land plots required for road construction project that are held on State Notary account, as determined by the legislation.

The supplier has defaulted on its performance obligations, which was secured by the bank guarantee. MDF claimed for the guarantee and recognized sum as other current asset and other income in its financial statements as of 31 December, 2016. Part of this amount is still outstanding as at the date of signing these financial statements. Management believes that this guarantee is fully recoverable.

15. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Commercial bank accounts	5,000,001	300,001
State treasury accounts	225,865,326	139,308,315
Total	**230,865,327**	**139,608,316**

16. DEPOSITS IN BANK

	31 December 2017	31 December 2016
Time deposits	19,500,000	15,000,000
Deposit certificates	16,500,000	15,000,000
Total	**36,000,000**	**30,000,000**

17. GRANTS RELATED TO ASSETS

	31 December 2017	31 December 2016
Balance at the begining of the period	**2,072,538**	**2,177,966**
Received during the year	242,071	91,519
Credited to profit and loss	(276,119)	(196,947)
Balance at the end of the period	**2,038,490**	**2,072,538**

Grants related to assets represent administrative land and building received from the Ministry of Economy of Georgia in 2007. For additional information please refer to Note 10.

18. LONG-TERM DEBT

	Currency	Interest rate	31 December 2017	31 December 2016
Unsecured long-term borrowings:				
Loan from Ministry of Finance (under EBRD project)	EUR	Refinancing rate	29,511,570	14,693,589
Total long-term debt			**29,511,570**	**14,693,589**

As described in note 12 above, during the years 2017 and 2016 Government of Georgia (GoG) received (date of first tranche being 30 September, 2016) long-term loan from the European Bank for Reconstruction and Development (EBRD) for the execution of Solid Waste Management project. Under the subsidiary loan agreement between GoG and MDF, the loan proceeds were received by MDF, which in its turn transferred the loan to the ultimate beneficiary municipalities.

Original currency of the loan from EBRD is in Euro and with annual interest rate equal to refinancing rate determined by the National Bank of Georgia. Maturity date of loan is determined to be 28 April 2026. Loan is repayable in local currency using exchange rate determined when the whole amount is disbursed.

				Non-cash change	
	01-Jan-17	**Financing cash flows (i)**	**Other changes (ii)**	**Foreign exchange Loss**	**31-Dec-2017**
Long-term debt	14,693,589	12,374,786	1,909,238	533,957	29,511,570
	14,693,589	**12,374,786**	**1,909,238**	**533,957**	**29,511,570**

				Non-cash change	
	01-Jan-16	**Financing cash flows (i)**	**Other changes (ii)**	**Foreign exchange Loss**	**31-Dec-2016**
Long-term debt	-	14,577,890	73,677	42,022	14,693,589
	-	**14,577,890**	**73,677**	**42,022**	**14,693,589**

i. The cash flows make up the net amount of proceeds from borrowings in the consolidated statement of cash flows.
ii. Other changes include interest accruals.

	31 December 2017	31 December 2016
Current	2,113,759	-
Non-current	27,397,811	14,693,589
Total long-term debt	**29,511,570**	**14,693,589**

19. TRADE AND OTHER PAYABLES

	31 December 2017	31 December 2016
Financial liabilities		
Retentions payable to contractors	15,822,101	15,529,704
Trade accounts payable	7,063,734	2,335,204
Guarantees payable to government	2,214,082	-
Other payables	539,570	225,602
	25,639,487	**18,090,510**
Non-financial liabilities		
Advances received from municipalities	930,704	950,104
Taxes other than income tax	115	-
	930,819	**950,104**
Total	**26,570,306**	**19,040,614**

Retentions payable to contractors: MDF retains 5-10% of the invoice amounts for the construction works in the framework of implemented project expenditures for possible future losses. These amounts are subject to payment to constructors one year after the construction works are completed.

For trade payables the average credit period on purchases of certain goods and services is 1-4 months. No interest is charged on the trade payables. The Fund has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

20. SOURCE OF FINANCING

	2017	2016
Source of financing as at 1 January	**211,878,375**	**195,387,832**
Government of Georgia	111,230,495	12,110,589
Asian Development Bank	17,726,573	412,677
Municipalities	3,768,454	(3,247,768)
KfW	80,250	938,894
United States Agency for International Development	-	(959,515)
Swedish International Development Agency	(879,338)	2,096,186
Government of France	(3,405,913)	(875,581)
European Union	(3,670,658)	27,234,598
European Bank for Reconstruction and Development	(4,156,646)	2,996,002
MDF	(4,274,017)	(9,164,682)
World Bank	(7,314,130)	741,797
Government of Netherlands	(8,258,974)	(328,384)
European Investment Bank	(9,061,981)	(15,464,270)
Net financing of implemented projects during the year	**91,784,115**	**16,490,543**
Source of financing as at 31 December	**303,662,490**	**211,878,375**

Source of financing balance represents net amount of financing received and expenditures incurred under projects financed by various donor organisations. When funds received from certain donor organization exceeds spendings for implementation of determined projects during accounting year, net amount of financing will be positive at the end of reporting period, and vice versa.

21. LOAN REVOLVING FUND

Loan revolving fund includes donor financing received from various financial institutions and provided as loan financing to municipalities for implementing the sub-projects for the rehabilitation and expansion of priority municipal services and infrastructure needs (Note 11).

22. RELATED PARTIES TRANSACTION AND OUTSTANDING BALANCES

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

The Fund is owned by State of Georgia. It has transactions with entities owned by the state of Georgia, referred as government related entities below. These transactions are conducted in the ordinary course of the fund's business on terms comparable to those with other entities that are non-government related entities.

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

	December 31, 2017		December 31, 2016	
	Related party balances	Total category as per the financial statements caption	Related party balances	Total category as per the financial statements caption
NON-CURRENT ASSETS				
Loans to municipalities	47,777,823	47,777,823	25,485,644	25,485,644
CURRENT ASSETS				
Loans to municipalities	8,775,885	8,775,885	6,016,231	6,016,231
Receivables and advances	4,288,024	99,896,827	4,632,620	94,056,012
Cash and cash equivalents	225,865,326	230,865,327	139,608,316	139,608,316
CURRENT LIABILITIES				
Trade and other payables	803,280	26,570,306	950,104	19,040,615

The remuneration of directors and other members of key management, it total 6 staff members were as follows:

	31 December 2017		31 December 2016	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Key management personnel compensation	307,580	3,640,496	299,300	4,225,165

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

	2017		2016	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Source of financing	114,998,949	91,784,115	8,862,821	16,490,543
Interest income from loans to municipalities	5,294,578	5,294,578	3,446,998	3,446,998
Other interest income	1,548,733	1,721,996	1,875,194	1,907,323

23. FINANCIAL RISK MANAGEMENT

The Fund's principal financial instruments comprise loans to municipalities, bank balances, accounts payables and long-term debt. The main purpose of these financial instruments is to ensure financing for the fund's operations.

Financial risks
The main financial risks arising from the Fund's financial instruments are foreign currency risk, interest rate risk, liquidity risk, and credit risk.

Foreign currency risk
The currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Fund is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Fund undertakes certain transactions denominated in foreign currencies, including the receipt of financing from International financial institutions for the implementation of projects. The financing is, in most cases, received in USD and EUR. The funds received are converted in GEL on periodic basis and the fluctuation in exchange rates between the date of funds received and converted results in foreign exchange gain/losses. The Fund does not use any derivatives to manage foreign currency risk exposure.

The Fund's exposure to foreign currency exchange rate risk is presented in the tables below:

	GEL	USD USD 1 = GEL 2.5922	EUR EUR 1 = GEL 3.1044	31 December 2017 Total
FINANCIAL ASSETS				
Cash and cash equivalents	186,413,931	829,585	43,621,811	230,865,327
Deposits in banks	36,000,000	-	-	36,000,000
Receivables and advances	7,646,952	1,296,100	-	8,943,052
Loans to municipalities	56,553,708	-	-	56,553,708
Other loans disbursed	12,587,445	-	4,580,067	17,167,512
TOTAL FINANCIAL ASSETS	**299,202,036**	**2,125,685**	**48,201,878**	**349,529,599**
FINANCIAL LIABILITIES				
Trade Payables	25,639,487	-	-	25,639,487
Long-term debt	-	-	29,511,570	29,511,570
TOTAL FINANCIAL LIABILITIES	**25,639,487**	**-**	**29,511,570**	**55,151,057**
OPEN POSITION	**273,562,549**	**2,125,685**	**18,690,308**	

	GEL	USD USD 1 = GEL 2.6468	EUR EUR 1 = GEL 2.7940	31 December 2016 Total
FINANCIAL ASSETS				
Cash and cash equivalents	4,551,074	83,307,633	51,749,609	139,608,316
Deposits in banks	30,000,000	-	-	30,000,000
Receivables and advances	5,674,865	-	-	5,674,865
Loans to municipalities	31,501,875	-	-	31,501,875
Other loans disbursed	29,527,731	-	6,639,890	36,167,621
TOTAL FINANCIAL ASSETS	**101,255,545**	**83,307,633**	**58,389,499**	**242,952,677**
FINANCIAL LIABILITIES				
Trade Payables	18,090,510	-	-	18,090,510
Long-term debt	-	-	14,693,589	14,693,589
TOTAL FINANCIAL LIABILITIES	**18,090,510**	**-**	**14,693,589**	**32,784,099**
OPEN POSITION	**83,165,035**	**83,307,633**	**43,695,910**	

The table below details the Fund's sensitivity to strengthening/weakening of functional currency against foreign currencies by 15 per cent as at 31 December 2017 and 31 December 2016. The analysis was applied to monetary items at the balance sheet date denominated in EUR.

	As at 31 December 2017		As at 31 December 2017	
	USD/GEL + 15%	**USD/GEL - 15%**	**EUR/GEL +15%**	**EUR/GEL - 15%**
Profit/(loss) before tax	318,853	(318,853)	2,803,546	(2,803,546)
Impact of equity	271,025	(271,025)	2,383,014	(2,383,014)

	As at 31 December 2016		As at 31 December 2016	
	USD/GEL + 15%	**USD/GEL - 15%**	**EUR/GEL +15%**	**EUR/GEL - 15%**
Profit before tax	12,496,145	(12,496,145)	6,554,387	(6,554,387)
Impact of equity	10,621,723	(10,621,723)	5,571,229	(5,571,229)

Interest rate risk

Interest-bearing financial assets and liabilities of the Fund have fixed interest rate. Therefore, Fund is not exposed to any interest rate risk.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to enable repayment of borrowings and other financial commitments as they actually fall due.

The table below presents the cash flows payable by the Fund and to the Fund under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flow.

(in GEL)

As at 31 December 2017	Carrying value	Contractual Cash Flows				
		Up to 1 month	Up to 1 year	1-5 years	Over 5 years	Total
FINANCIAL ASSETS						
Deposits in banks	36,000,000	-	20,269,888	23,264,273	-	43,534,161
Loans to municipalities	56,553,708	893,414	12,011,329	44,971,831	19,556,801	77,433,375
Other loans disbursed	17,167,512	1,000,000	5,181,357	12,068,503	-	18,249,860
Bank balances	230,865,327	225,865,326	5,053,356	-	-	230,918,682
Receivables and advances	8,943,052	8,943,052	-	-	-	8,943,052
TOTAL FINANCIAL ASSETS	**349,529,599**	**236,701,792**	**42,515,930**	**80,304,607**	**19,556,801**	**379,079,130**
FINANCIAL LIABILITIES						
Long-term debt	29,511,570	2,113,759	2,078,046	18,162,061	17,674,687	40,028,553
Accounts payable	25,639,487	10,171,487	15,468,000	-	-	25,639,487
TOTAL FINANCIAL LIABILITIES	**55,151,057**	**12,285,246**	**17,546,046**	**18,162,061**	**17,674,687**	**65,668,040**
Liquidity gap		**224,416,546**	**24,969,884**	**62,142,546**	**1,882,114**	
Cumulative liquidity gap		**224,416,546**	**249,386,430**	**311,528,976**	**313,411,090**	

		Contractual Cash Flows				
As at 31 December 2016	**Carrying value**	**Up to 1 month**	**Up to 1 year**	**1-5 years**	**Over 5 years**	**Total**
FINANCIAL ASSETS						
Deposits in banks	30,000,000	-	7,383,717	31,161,425	-	38,545,142
Loans to municipalities	31,501,875	488,228	9,558,223	25,986,047	10,227,760	46,260,258
Other loans disbursed	36,167,621	-	8,039,330	23,306,636	13,681,489	45,027,455
Bank balances	139,608,316	139,608,316	-	-	-	139,608,316
Receivables and advances	6,076,769	6,076,769	-	-	-	6,076,769
TOTAL FINANCIAL ASSETS	**243,354,581**	**146,173,313**	**24,981,270**	**80,454,108**	**23,909,249**	**275,517,940**
FINANCIAL LIABILITIES						
Long-term debt	14,693,589	-	-	5,616,028	9,635,512	15,251,540
Accounts payable	18,090,510	5,805,158	12,285,352	-	-	18,090,510
TOTAL FINANCIAL LIABILITIES	**32,784,099**	**5,805,158**	**12,285,352**	**5,616,028**	**9,635,512**	**33,342,050**
Liquidity gap		**140,368,155**	**12,695,918**	**74,838,080**	**14,273,737**	
Cumulative liquidity gap		**140,368,155**	**153,064,073**	**227,902,153**	**242,175,890**	

Credit risk
The Fund is exposed to credit risk through its receivables and advances, loans to municipalities and other loans disbursed.

The Fund operates by applying a clear set of loan granting criteria to the municipalities. Each municipality is assessed for creditworthiness using the data provided by the Ministry of Finance. The Fund takes into consideration both quantitative and qualitative factors when assessing the creditworthiness of the borrower. Based on this analysis, the Fund sets the credit limit for each and every borrower.

When the loan agreement has been signed, the Fund monitors the loan and borrower's solvency. The Fund has developed loan monitoring process so that it helps to quickly spot any possible non-compliance with the provisions of the agreement. The receivable balances are monitored on an ongoing basis to ensure that the Fund's exposure to bad debts is minimized, and, where appropriate, provisions are being made.

Fair value
Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Fund using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost - The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Liabilities carried at amortised cost - The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Management of the Fund considers that the carrying amounts of financial liabilities recorded in the financial statements approximate to their fair values.

24. COMMITMENTS AND CONTINGENCIES

Commitments – The Fund receives financing from donors for the completion of different projects. The fund is committed to use the proceeds received for the purposes defined in loan, credit or grant agreements. Total amount of the commitment for the year ended 2017 amounts to the balance of Source of Financing in entity's financial statements.

Legal proceedings – As at 31 December 2017 the Fund had number of outstanding claims raised by suppliers where the Fund is acting as a defendant:

- "Sani" LLC as a request to return the penalty and payments for terminated contracts in the amount of GEL 10,909,915;
- "Mshenebeli 29" LLC as a request for reimbursement of damages in the amount of GEL 1,035,144;
- "Avtohouse 2011" LLC as a request for damages and loss of profit of GEL 4,319,331.

Based on negotiations to date, the management believes that probability to win these cases is more than 75%, therefore no provision has been accrued by the Fund.

Taxes – Georgian tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Fund may be assessed additional taxes, penalties and interest. The Fund believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for six years.

Operating environment – The entity's principal business activities are within Georgia. Since laws and regulations affecting the business environment in Georgia are subject to rapid changes, the entity's assets and operations could be at risk due to negative changes in the political and business environment.

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Tax, currency and customs legislation within Georgia are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Georgia. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

For the last two years Georgia has experienced a number of legislative changes, which have been largely related to the European Union Association Agreement. Whilst the legislative changes implemented during 2016 and 2017 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

25. EVENTS AFTER THE REPORTING PERIOD

On 1 June 2018 Galaktion Buadze left his position as an Executive Director of the Fund. Juansher Burchuladze has been assigned as an Acting Executive Director by the Supervisory Board until new executive director is appointed.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on 29 June 2018.