MUNICIPAL DEVELOPMENT FUND OF GEORGIA

Financial Statements and
Independent Auditor's Report
For the Period Ended 31 December 2015

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, 2015

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 2015, and the results of its operations, changes in reserves and cash flows for the year ended 31 December 2015, 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;
- 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 2015 were approved by management on 30 June 2016.

On behalf of the Management:

Tornike Toradze
Acting Executive Director

30 June 2016

Natalie Godziashvili
Head of Financial Management and Investments Unit

30 June 2016

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INDEPENDENT AUDITOR'S REPORT

To the management of the Municipal Development Fund of Georgia:

We have audited the accompanying financial statements of the Municipal Development Fund of Georgia (hereinafter the "Fund"), which comprise the statement of financial position as at 31 December 2015 and the statement of comprehensive income, changes in reserves and cash flows for the year ended 31 December 2015, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the fund'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 fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Emphasis of matter

We draw attention to Note 6 to the special purpose project financial statements which describes the reclassifications of corresponding figures for the year ended 31 December 2014. Our audit opinion is not qualified in that respect.

Other matters

The financial statements for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those statements on 30 June 2015.

As part of our audit of the 2015 financial statements, we also audited the reclassifications described in Note 6 that were applied to amend the 2014 corresponding figures. In our opinion, such reclassifications are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2014 financial statements other than with respect to the reclassifications and, accordingly, we do not express an opinion or any other form of assurance on the 2014 special purpose project financial statements taken as a whole.

Deloitte & Touche

30 June 2016
Tbilisi, Georgia

MUNICIPAL DEVELOPMENT FUND OF GEORGIA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

(in GEL)

	Notes	Year ended 31 December 2015	Period ended 31 December 2014
Income from loans to municipalities	7	3,775,908	4,459,036
Bank Interest income		3,750,390	2,289,401
Other interest income		718,293	266,796
Other (expense)/ income	8	(2,403,834)	2,568,942
Gain/(loss) from exchange rate differences		13,164,530	(7,607,536)
Administrative expenses	9	(6,972,289)	(6,274,721)
Profit/(loss) before Income Tax		**12,032,998**	**(4,298,082)**
Income tax expense	10	(360,044)	(365,141)
Net profit/(loss) for the period		**11,672,954**	**(4,663,223)**

On behalf of the Management:

Tornike Toradze
Acting Executive Director

30 June 2016

Natalie Godziashvili
Head of Financial Management and Investments Unit

30 June 2016

The notes on pages 8-30 form an integral part of these financial statements.

MUNICIPAL DEVELOPMENT FUND OF GEORGIA

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015
(in GEL)

	Notes	31 December 2015	31 December 2014
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	971,712	1,121,672
Intangible assets		158,534	69,842
Deferred tax asset	10	68,986	112,925
Loans to municipalities	12	23,463,217	22,765,213
Other loans disbursed	13	20,697,240	5,839,462
TOTAL NON-CURRENT ASSETS		**45,359,689**	**29,909,114**
CURRENT ASSETS			
Loans to municipalities	12	5,527,733	10,302,245
Other loans disbursed	13	8,457,676	1,888,670
Other current assets		21,165	54,412
Current income tax assets		379,150	303,259
Receivables and advances	14	59,319,231	65,817,860
Bank deposits		22,600,000	30,000,000
Cash and cash equivalents	15	142,308,107	90,318,804
TOTAL CURRENT ASSETS		**238,613,062**	**198,685,250**
TOTAL ASSETS		**283,972,751**	**228,594,364**
RESERVES AND LIABILITIES			
RESTRICTED RESERVES			
Sources of financing		195,387,832	149,504,665
Loan revolving fund		27,566,775	32,139,454
UNRESTRICTED RESERVES			
Retained earnings		43,473,025	31,800,071
TOTAL RESERVES		**266,427,632**	**213,444,190**
LIABILITIES			
NON-CURRENT LIABILITIES			
Grants related to assets	16	284,704	104,186
TOTAL NON-CURRENT LIABILITIES		**284,704**	**104,186**
CURRENT LIABILITIES			
Trade payables	17	17,260,415	15,045,988
TOTAL CURRENT LIABILITIES		**17,260,415**	**15,045,988**
TOTAL RESERVES AND LIABILITIES		**283,972,751**	**228,594,364**

On behalf of the Management:

Tornike Toradze
Acting Executive Director

30 June 2016

Natalie Godziashvili
Head of Financial Management and Investments Unit

30 June 2016

The notes on pages 8-30 form an integral part of these financial statements.

MUNICIPAL DEVELOPMENT FUND OF GEORGIA

STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 DECEMBER 2015
(in GEL)

	Sources of financing	Loan revolving fund	Retained earnings	Total reserves
1 January 2014	76,940,859	39,135,837	36,463,294	**161,936,331**
Result for the year	-	-	(4,663,223)	(4,663,223)
Decrease in loan revolving fund	-	(6,996,383)	-	(6,996,383)
Net financing of implemented projects	72,563,806	-	-	63,167,465
31 December 2014	**149,504,665**	**32,139,454**	**31,800,071**	**213,444,190**
Result for the year	-	-	11,672,954	11,672,954
Decrease in loan revolving fund	-	(4,572,679)	-	(4,572,679)
Net financing of implemented projects	45,883,167	-	-	45,883,167
31 December 2015	**195,387,832**	**27,566,775**	**43,473,025**	**266,427,632**

On behalf of the Management:

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Tornike Toradze
Acting Executive Director

30 June 2016

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Natalie Godziashvili
Head of Financial Management and Investments Unit

30 June 2016

The notes on pages 8-30 form an integral part of these financial statements.

MUNICIPAL DEVELOPMENT FUND OF GEORGIA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015
(in GEL)

	31 December 2015	31 December 2014
Cash flow from operating activities:		
Income/(loss) before income tax	11,672,954	(4,663,223)
Adjustments for:		
Depreciation and amortisation expense	651,187	427,722
Provision for impairment losses on interest-bearing assets	(593,568)	995,472
Write-off of other loans disbursed	1,678,407	-
Income from grants related to assets	(33,930)	(28,710)
Interest income	(8,244,590)	(6,748,437)
Income tax expense	360,044	365,141
Foreign exchange (gain)/loss	(13,164,530)	7,607,536
Operating loss before working capital changes	(7,674,026)	(2,044,499)
Change in receivables and advances	6,882,859	(26,567,531)
Change in other current assets	33,247	48,550
Change in bank deposits	7,400,000	(30,000,000)
Change in payables	(2,833,495)	4,404,322
Change of payables to government	-	(2,400,278)
Cash generated by/(used in) operations	3,808,585	(56,559,436)
Income tax paid	(391,996)	(410,593)
Net cash flows used in operating activities	**3,416,589**	**(56,970,029)**
Cash flows from investing activities		
Purchase of equipment and intangible assets	(706,913)	(522,267)
Proceeds from disposal of property and equipment	-	17,299
Interest received from municipalities and banks	7,022,703	13,648,662
Net cash flows used in investing activities	**6,315,790**	**13,143,694**
Cash flows from financing activities		
Projects financing/(expenses), net	45,883,168	64,835,674
Proceeds from repayment of other issued loans, net	(17,130,547)	-
Loans repaid by/(provided to) municipalities	(4,572,679)	(6,996,383)
Net cash from financing activities	**24,179,942**	**57,839,291**
Effect of foreign exchange rate changes on cash and cash equivalents	18,076,982	(7,607,536)
NET INCREASE IN CASH AND CASH EQUIVALENTS	33,912,321	14,012,956
CASH AND CASH EQUIVALENTS, at beginning of the period	**90,318,804**	**83,913,384**
CASH AND CASH EQUIVALENTS, at end of the period	**142,308,107**	**90,318,804**

On behalf of the Management:

Tornike Toradze
Acting Executive Director

30 June 2016

Natalie Godziashvili
Head of Financial Management and Investments Unit

30 June 2016

The notes on pages 8-30 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").

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

At the date of authorization of these preliminary special purpose financial statements, the following Standards and Interpretations, as well as amendments to the Standards were in issue but not yet effective:

IFRS 9 Financial Instruments[2];
IFRS 15 Revenue from Contracts with Customers[2];
Amendments to IFRS 11 - Accounting for Acquisition of Interests in Joint Operations[1];
Amendments to IAS 1 – Disclosure Initiative[1];
Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation[1];
Amendments to IAS 16 and IAS 41 - Agriculture: Bearer Plants[1];
Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1];
Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception[1];
IFRS 14 Regulatory Deferral Accounts[1];
Amendments to IAS 27 - Equity Method in Separate Financial Statements[1];
Annual Improvements to IFRSs 2012-2014 Cycle[1];

[1] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

The management of the fund can not reasonably estimate the effect that the application of IFRS 9 may have on amounts reported in respect of the fund's financial assets and financial liabilities.

The management of the Fund does not anticipate that the application of these amendments, except IFRS 9, will have a significant effect on the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 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.

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 consolidated 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 consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies are set out below.

4.2 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.

4.3 Financial instruments

Financial assets and financial liabilities are recognised when a Funs 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' 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 is

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Financial liabilities
Financial liabilities (represented with trade payables) 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.

4.4 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.

4.5 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.

4.6 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 years
Furniture and other	- 5 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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

4.7 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.

4.8 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.

4.9 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.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, 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.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

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.

The directors of the Fund believe that no allowance should be made in respect of deferred tax assets as of the reporting date as it is probable that deferred tax assets will be fully realised. As at 31 December 2015 the carrying value of deferred tax assets was GEL 68,986 (2014: GEL 112,925).

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.

6. RESTATEMENTS

Certain reclassifications have been made to the financial statements for the year ended 31 December 2014 to correct the presentation of the corresponding figures in the financial statements for the current period. Management believes that current year presentation provides a better view of the financial position, results of operations and cash flows of the Fund.

	As previously reported YE 2014	Reclassification amount YE 2014	As reclassified YE 2014	Description
Statement of profit or loss				
Other interest income	-	266,796	266,796	Interest income accrued on loans to commercial banks from the proceeds of KfW grants.
Other (expense)/income	2,835,738	(266,796)	2,568,942	Interest income accrued on loans to commercial banks from the proceeds of KfW grants.
Statement of financial position				
Bank balances	120,318,804	(30,000,000)	90,318,804	Bank deposits with original maturity greater than three months at inception.
Bank deposits	-	30,000,000	30,000,000	Bank deposits with original maturity greater than three months at inception.
Other loans disbursed	-	5,839,462	5,839,462	Loans disbursed to the commercial banks from the proceeds of KfW grant.
Current portion of other loans disbursed	-	1,888,670	1,888,670	Loans disbursed to the commercial banks from the proceeds of KfW grant.
Source of financing	141,776,533	7,728,132	149,504,665	Loans disbursed to the commercial banks from the proceeds of KfW grant.
Statement of cash flows				
Increase in bank deposits	-	30,000,000	30,000,000	Bank deposits with original maturity greater than three months at inception.
Bank balances at the end of the year	120,318,804	(30,000,000)	90,318,804	Bank deposits with original maturity greater than three months at inception.
Statement of changes in reserves				
Net financing of implemented projects	64,835,674	7,728,132	72,563,806	Loans disbursed to the commercial banks from the proceeds of KfW grant.

7. INCOME FROM LOANS TO MUNICIPALITIES

	31 December 2015	31 December 2014
Interest income	3,770,715	4,458,301
Penalty income	5,193	735
Total	**3,775,908**	**4,459,036**

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

Municipality	For the year ended 31 December 2015	For the year ended 31 December 2014
Tbilisi	223,714	488,494
Kutaisi	57,674	167,247
Batumi	110,628	192,083
Ozurgeti	4,399	85,360
Ozurgeti City	32,723	-
Rustavi	457,353	546,511
Gori	80,534	49,106
Gori City	20,343	-
Poti	346,663	377,695
Zugdidi City	400,781	423,949
Zestafoni	66,297	83,009
Telavi	57,684	231,381
Telavi City	144,757	-
Borjomi	43,318	55,395
Dusheti	153,067	180,471
Akhalqalaqi	88,835	102,652
Khobi	84,462	96,955
Akhaltsikhe	-	5,593
Akhaltsikhe City	4,203	-
Marneuli	102,535	118,401
Mtskheta	109,490	186,689
Mtskheta City	50,870	-
Oni	4,197	5,583
Sagarejo	4,292	5,662
Tsalenjikha	49,673	5,742
Kaspi	27,617	5,641
Bolnisi	173,074	200,012
Gardabani	60,956	69,678
Gurjaani	235,221	270,699
Lagodekhi	83,923	96,355
Lentekhi	4,529	5,866
Sighnaghi	85,730	5,904
Kobuleti	357,402	396,168
Mestia	22,017	-
Martvili	4,229	-
Tetritskaro	17,525	-
Total:	**3,770,715**	**4,458,301**

8. OTHER (EXPENSE)/ INCOME

	31 December 2015	31 December 2014
Income from grants related to assets	33,930	28,710
Income from penalties related to projects	-	2,343,173
Accrual of liability to state budget related to penalties received in prior years	(1,869,862)	-
Other	(567,902)	197,059
Total	**(2,403,834)**	**2,568,942**

9. ADMINISTRATIVE EXPENSE

	31 December 2015	31 December 2014
Employee benefits	4,246,244	3,053,950
Write-off of irrecoverable loans	1,678,407	-
Depreciation and amortization	651,187	427,722
Office expenses	134,407	165,796
Trips, transportation, advertising and representation expenses	360,723	803,856
Audit and consulting	35,282	48,286
Non-reimbursable taxes	-	162,665
Communication costs	13,079	68,272
Insurance expenses	177,340	37,579
Representative expenses	11,315	8,559
(Reversal)/provision for doubtful receivables	(593,568)	995,472
Other	257,873	502,564
Total	**6,972,289**	**6,274,721**

10. INCOME TAX EXPENSE

The tax rate used for the 2015 and 2014 reconciliations and assessment of deferred taxes below is the corporate tax rate of 15% payable by corporate entities in Georgia on taxable profits under the tax law in Georgia. The main components of the income tax for the year ended 31 December 2015 and period ended 31 December 2014 were as follows:

	31 December 2015	31 December 2014
Current income tax expense	316,105	374,641
Deferred income tax benefit/(expense)	43,939	(9,500)
Corporate income tax charged to the statement of profit or loss and other comprehensive income	**360,044**	**365,141**

10. INCOME TAX (CONTINUED)

Actual Corporate Income tax charge, if compared with theoretical calculations:

	31 December 2015	31 December 2014
Loss/(gain) before tax	**(12,032,997)**	**4,298,082**
Tax at the applicable rate of 15%	1,804,950	644,712
Tax effect of permanent differences	(1,444,906)	(279,571)
Actual corporate income tax benefit/(expense) for the reporting period	**360,044**	**365,141**

Temporary differences as at 31 December 2015 and 31 December 2014 were due to:

	31 December 2015	31 December 2014
Deferred corporate income tax asset		
Property, plant and equipment	156,989	111,893
Intangible assets	1,032	1,032
Receivables and advances	(89,035)	-
Net deferred corporate income tax asset	**68,986**	**112,925**

As at 31 December 2015 and 2014, deferred tax asset was as follows:

	31 December 2015	31 December 2014
Deferred tax asset at the begining of the period	**112,925**	103,425
Change in deferred income tax balances recognized in profit or loss	(43,939)	9,500
Deferred tax asset as at 31 December	**68,986**	**112,925**

11. PROPERTY PLANT AND EQUIPMENT

	Land	Leasehold improvement	Equipment and machinery	Motor Vehicles	Furniture and other	Total
Cost						
As at 1 January 2014	**-**	**1,163,652**	**1,123,474**	**1,342,449**	**209,467**	**3,839,042**
Additions	69,209	-	109,526	291,217	70,045	539,997
Disposals	-	-	(3,875)	(177,073)	(277)	(181,225)
31 December 2014	**69,209**	**1,163,652**	**1,229,125**	**1,456,593**	**279,235**	**4,197,814**
Additions		17,648	235,410	299,328	144,508	696,894
Disposals			(256,645)	(221,649)	(141,950)	(620,244)
31 December 2015	**69,209**	**1,181,300**	**1,207,890**	**1,534,272**	**281,793**	**4,274,464**
Accumulated depreciation						
As at 1 January 2014	**-**	**1,057,805**	**817,895**	**746,747**	**203,229**	**2,825,676**
Charge for the period	-	50,499	112,826	240,848	10,219	414,392
Eliminated on disposal	-	-	(1,508)	(162,250)	(168)	(163,926)
31 December 2014	**-**	**1,108,304**	**929,213**	**825,345**	**213,280**	**3,076,142**
Charge for the period	**-**	59,065	156,792	293,695	109,992	619,544
Eliminated on disposal	-	-	(223,963)	(82,606)	(86,365)	(392,934)
31 December 2015	**-**	**1,167,369**	**862,042**	**1,036,434**	**236,907**	**3,302,752**
Carrying amount as at 31 December 2015	**69,209**	**13,931**	**345,847**	**497,838**	**44,886**	**971,712**
Carrying amount as at 31 December 2014	**69,209**	**55,348**	**299,912**	**631,248**	**65,955**	**1,121,672**

Fully depreciated assets as at 31 December 2015 and 2014 amounted to gross GEL 120,078 and GEL 2,265,103, respectively.

During 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, while the ownership title over the assets remain with the Ministry of Economy of Georgia.

12. LOANS TO MUNICIPALITIES

	31 December 2015	31 December 2014
Current portion	5,527,733	10,302,245
Long-term portion	23,463,217	22,765,213
Total:	**28,990,950**	**33,067,458**

Current portion of loans to municipalities include the following:

	31 December 2015	31 December 2014
Principal receivable	5,393,710	9,374,241
Interest receivable	1,422,344	918,751
Penalties receivable	1,832	9,253
Total:	**6,817,886**	**10,302,245**

Municipality	Current Portion	Non-current portion	Total 2015
Tbilisi	885,518	18,301	903,819
Kutaisi	59,964	75,060	135,024
Batumi	140,479	531,933	672,412
Ozurgeti	13,493	16,569	30,062
Ozurgeti City	30,595	-	30,595
Rustavi	663,585	2,780,579	3,444,164
Gori	129,986	1,602,670	1,732,656
Gori City	26,916	-	26,916
Poti	-	-	-
Zugdidi City	563,821	2,475,663	3,039,484
Zestafoni	118,655	366,657	485,312
Telavi	102,293	328,340	430,633
Telavi City	187,452	927,104	1,114,556
Borjomi	94,669	207,136	301,805
Dusheti	263,464	877,770	1,141,234
Akhalqalaqi	138,344	534,225	672,569
Khobi	125,092	517,535	642,627
Akhaltsikhe City	13,926	14,270	28,196
Marneuli	158,848	617,853	776,701
Mtskheta	173,419	654,107	827,526
Mtskheta City	90,205	289,544	379,749
Oni	13,877	14,308	28,185
Sagarejo	13,687	15,392	29,079
Tsalenjikha	73,971	1,115,126	1,189,097
Kaspi	36,956	545,503	582,459
Bolnisi	269,682	1,040,608	1,310,290
Gardabani	87,332	377,891	465,223
Gurjaani	355,213	1,431,079	1,786,292
Lagodekhi	124,588	513,995	638,583
Lentekhi	18,838	17,760	36,598
Sighnaghi	120,981	1,394,943	1,515,924
Kobuleti	388,114	2,400,257	2,788,371
Mestia	22,017	609,396	631,413
Martvili	4,229	56,035	60,264
Tetritskaro	17,524	1,095,608	1,113,132
Total:	**5,527,733**	**23,463,217**	**28,990,950**

12. LOANS TO MUNICIPALITIES (CONTINUED)

Municipality	Current Portion	Non-current portion	Total 2014
Tbilisi	1,646,454	903,830	2,550,284
Kutaisi	684,797	61,860	746,657
Batumi	434,853	672,415	1,107,268
Ozurgeti	350,538	60,652	411,190
Rustavi	685,277	3,444,164	4,129,441
Gori	215,364	26,210	241,574
Poti	3,179,545	589,223	3,768,768
Zugdidi	577,664	3,039,484	3,617,148
Zestafoni	126,823	485,312	612,135
Telavi	265,811	1,545,189	1,811,000
Borjomi	107,294	301,805	409,099
Dusheti	243,485	1,141,234	1,384,719
Akhalqalaqi	122,773	672,569	795,342
Khobi	111,005	642,621	753,626
Akhaltsikhe	12,359	28,196	40,555
Marneuli	140,969	776,701	917,670
Mtskheta	233,974	1,207,276	1,441,250
Oni	12,315	28,185	40,500
Sagarejo	12,148	29,079	41,227
Tsalenjikha	15,223	30,027	45,250
Kaspi	12,088	29,013	41,101
Bolnisi	239,330	1,310,289	1,549,619
Gardabani	77,500	465,222	542,722
Gurjaani	315,231	1,786,291	2,101,522
Lagodekhi	110,453	638,455	748,908
Lentekhi	11,899	31,169	43,068
Sighnaghi	12,642	30,371	43,013
Kobuleti	344,431	2,788,371	3,132,802
Total:	**10,302,245**	**22,765,213**	**33,067,458**

Loans to municipalities represent loans disbursed by MDF to Local self governments within the scope of different projects financed by International Financial Institutions and implemented by MDF. 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 12% and are disbursed for an average period of 10 years.

No provision for impairement 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 2015 and 2014.

13. OTHER LOANS DISBURSED

	31 December 2015	31 December 2014
Current portion	8,457,676	1,888,670
Long-term portion	20,697,240	5,839,462
Total:	**29,154,916**	**7,728,132**

Current portion of other loans disbursed include the following:

	31 December 2015	31 December 2014
Principal receivable	8,015,813	1,888,670
Interest receivable	441,863	-
Total:	**8,457,676**	**1,888,670**

	31 December 2015	31 December 2014
Loans disbursed to Tbilisi City hall (Principal)	18,063,692	-
Loans disbursed to United Water Supply Company of Georgia	2,143,361	-
Loans disbursed to commercial banks	8,506,000	7,728,132
Interest receivable from the loans to Tbilisi City hall	441,863	-
Total:	**29,154,916**	**7,728,132**

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.

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. The amount, written-off from the balance in relation to the above mentioned loan, represents the accrued penalty and interest receivable that MDF does not expect to be collected from the counterparty. See note 9.

14. RECEIVABLES AND ADVANCES

	31 December 2015	31 December 2014
Financial assets		
Receivables from terminated contracts	2,721,522	2,800,257
Receivables from municipalities	3,303,211	-
Other receivables	822,450	344,446
	6,847,183	3,144,703
Non-financial assets		
Advances to suppliers	52,873,952	63,668,629
	52,873,952	63,668,629
Provision for doubtful receivable	(401,904)	(995,472)
Total:	**59,319,231**	**65,817,860**

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 48,537,127 for the year ended 2015 (GEL 61,183,345 for the year ended 2014) for the construction and rehabilitation of the infractructure in different regions, GEL 3,840,345 for acquisition of goods (GEL 903,674 for the year ended 2014), GEL 608,730 for supervision of construction works (GEL 1,477,900 for the year ended 2014) and GEL 45,481 for other services (GEL 103,710 for the year ended 2014). Advances are fully redeemed when the performance of works and services is 80-90% complete by the contractor.

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

As at 31 December 2015 and 2014, movement in the provision for doubfull receivable was as follows:

	31 December 2015	31 December 2014
Provision for doubtfull receivable at the begining of the period	**995,472**	-
Additional provision recognised during the year	-	995,472
Reversal of provision recognised in prior periods	(593,568)	-
Provision for doubtfull receivable at the end of the period	**401,904**	**995,472**

15. CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Commercial bank accounts	1,907,556	15,621,522
State treasury accounts	140,400,551	74,697,282
Total	**142,308,107**	**90,318,804**

16. GRANTS RELATED TO ASSETS

	31 December 2015	31 December 2014
Balance at the begining of the period	**104,186**	**132,896**
Received during the year	214,448	-
Credited to profit and loss	(33,930)	(28,710)
Balance at the end of the period	**284,704**	**104,186**

17. TRADE PAYABLES

	31 December 2015	31 December 2014
Financial liabilities		
Retentions payable to contractors	12,765,988	9,165,844
Trade accounts payable	2,146,160	4,765,058
Other payables	1,623,221	294,338
	16,535,369	14,225,240
Non-financial liabilities		
Advances received from municipalities	704,041	795,341
Taxes other than income tax	21,005	25,407
	725,046	820,748
Total	**17,260,415**	**15,045,988**

MDF retains 5% 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.

18. RELATED PARTIES TRANSACTION AND OUTSTANDING BALANCES

Related parties include entities owned by the government and members of key management personnel.

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

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

	31 December 2015		**31 December 2014**	
	Related party balances and transactions	**Total category as per the financial statements caption**	**Related party balances and transactions**	**Total category as per the financial statements caption**
Key management personnel compensation	287,830	4,246,244	652,315	3,053,950

19. FINANCIAL RISK MANAGEMENT

The Fund’s principal financial instruments comprise loans to municipalities, bank balances and accounts payables. 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.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	GEL	USD USD 1 = GEL 2.3949	EUR EUR 1 = GEL 2.6169	31 December 2015 Total
FINANCIAL ASSETS				
Bank balances	1,748,624	113,744,626	26,814,857	142,308,107
Bank deposits	22,600,000	-	-	22,600,000
Receivables and advances	6,847,183	-	-	6,847,183
Loans to municipalities	28,990,950	-	-	28,990,950
Other loans disbursed	20,648,916	-	8,506,000	29,154,916
TOTAL FINANCIAL ASSETS	80,835,673	113,744,626	35,320,857	229,901,155
FINANCIAL LIABILITIES				
Trade payables	16,535,368	-	-	16,535,368
TOTAL FINANCIAL LIABILITIES	**16,535,368**	**-**	**-**	**16,535,368**
OPEN POSITION	**64,300,305**	**113,744,626**	**35,320,857**	**213,365,787**

	GEL	USD USD 1 = GEL 1.8636	EUR EUR 1 = GEL 2.2656	31 December 2014 Total
FINANCIAL ASSETS				
Bank balances	5,037,729	42,854,108	42,426,967	90,318,804
Bank deposits	30,000,000	-	-	30,000,000
Receivables and advances	3,144,703	-	-	3,144,703
Loans to municipalities	33,067,458	-	-	33,067,458
Other loans disbursed				
TOTAL FINANCIAL ASSETS	71,249,890	42,854,108	42,426,967	156,530,965
FINANCIAL LIABILITIES				
Trade payables	15,045,988	-	-	15,045,988
TOTAL FINANCIAL LIABILITIES	**15,045,988**	-	-	**15,045,988**
OPEN POSITION	**56,203,902**	**42,854,108**	**42,426,967**	**141,484,977**

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 2015 and 31 December 2014. The analysis was applied to monetary items at the balance sheet date denominated in EUR.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

	As at 31 December 2015		As at 31 December 2015	
	USD/GEL + 15%	**USD/GEL - 15%**	**EUR/GEL +15%**	**EUR/GEL - 15%**
Profit/(loss) before tax	17,061,694	(17,061,694)	4,022,228	(4,022,228)
Impact of equity	14,502,440	(14,502,440)	3,418,894	(3,418,894)

	As at 31 December 2014		As at 31 December 2014	
	USD/GEL + 15%	**USD/GEL - 15%**	**EUR/GEL +15%**	**EUR/GEL - 15%**
Profit/(loss) before tax	6,428,116	(6,428,116)	6,364,045	(6,364,045)
Impact of equity	5,463,899	(5,463,899)	5,409,438	(5,409,438)

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.

		Contractual cash flows				
As at 31 December 2015	**Carrying value**	**On demand**	**Up to 1 year**	**1-5 years**	**More than 5 years**	**Total**
Financial Assets						
Bank deposits	22,600,000	-	13,557,986	17,167,603	-	30,725,589
Loans to municipalities	28,990,950	282,142	12,009,025	25,276,516	5,082,407	42,650,090
Other loans disbursed	29,154,916	441,863	8,671,780	19,721,874	109,375	28,944,892
Bank balances	142,308,107	142,308,107	-	-	-	142,308,107
Receivables and advances	6,847,183	6,847,183	-	-	-	6,847,183
Total financial assets	**229,901,156**	**149,879,295**	**34,238,791**	**62,165,993**	**5,191,782**	**251,475,861**
Financial Liabilities						
Accounts payable	16,535,369	16,535,369	-	-	-	**16,535,369**
Total financial liabilities	**16,535,368**	**16,535,369**	**-**	**-**	-	**16,535,369**
Liquidity gap	**215,044,194**	**133,343,927**	**34,238,791**	**62,165,993**	**5,191,782**	
Cumulative liquidity gap	**215,044,194**	**346,709,714**	**380,948,505**	**443,114,498**	**448,306,280**	

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

		Contractual cash flows				
As at 31 December 2014	**Carrying value**	**On demand**	**Up to 1 year**	**1-5 years**	**More than 5 years**	**Total**
Financial Assets						
Bank deposits	30,000,000	-	33,008,630	-	-	33,008,630
Loans to municipalities	33,067,458	928,004	10,537,472	31,652,923	891,809	44,010,208
Other loans disbursed	7,728,132	-	2,135,131	6,950,163	876,561	9,961,855
Bank balances	90,318,804	90,318,804	-	-	-	90,318,804
Receivables and advances	6,847,183	6,847,183	-	-	-	6,847,183
Total financial assets	**167,961,577**	**98,093,991**	**45,681,233**	**38,603,086**	**1,768,370**	**184,146,680**
Financial Liabilities						
Accounts payable	16,535,368	16,535,368	-	-	-	**16,535,368**
Total financial liabilities	**16,535,368**	**16,535,368**	**-**	**-**	-	**16,535,368**
Liquidity gap	**151,426,208**	**81,558,622**	**45,681,233**	**38,603,086**	**1,768,370**	
Cumulative liquidity gap	**151,426,208**	**232,984,830**	**278,666,063**	**317,269,149**	**319,037,519**	

Credit risk

The Fund is exposed to credit risk through its receivables and advances and loans to municipalities.

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 lease 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.

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:

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

All financial instruments of the Fund fall under Level 3.

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.

20. COMMITMENTS AND CONTINGENCIES

Commitments – The Fund had no material commitments outstanding as at 31 December 2015.

Legal proceedings - As at 31 December 2015 the Fund was not engaged in any significant litigation proceedings. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

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.
In 2014 and 2015, economies of the CIS countries experienced political and economic turmoil which significantly affected Georgian economy as well. Currency exchange market was unstable and the Georgian Lari depreciated by 28%, substantially against the United States of Dollar.

Economic situation in Georgia depends, to a large extent, upon success of the Georgian government's efforts, future condition of the Georgian economy and political developments in the CIS. Outcome of these efforts and developments is at this stage difficult to determine.

21. EVENTS AFTER THE REPORTING PERIOD

During the year 2016, the fund signed the agreements with the World Bank, European Bank for Reconstruction and Development and the European Investment Bank. The agreements for USD 9 million, EUR 10 million and EUR 25 million, were formed for the execution of the Regional Development Project, Georgia Solid Waste Management Project and Georgia Urban Reconstruction and Development Project, respectively.

22. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on 30 June 2016.