

Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2013

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor in relation to the financial statements of Microfinance Organization Giro Credit Limited Liability Company (the "MFO").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the MFO at 31 December 2013, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standard for Small and Medium-sized enterprises ("IFRS for SMEs").


In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the MFO;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the MFO, and which enable them to ensure that the financial statements of the MFO comply with IFRS for SMEs;
- Maintaining statutory accounting records in compliance with legislation of Georgia;
- Taking such steps as are reasonably available to them to safeguard the assets of the MFO; and
- Detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2013 were authorized for issue on 4 April 2014 by the Management Board.



Giorgi Gugumberidze
Director



Mariana Mkhitarian
Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Owners and Management of Microfinance Organization Giro Credit Limited Liability Company:

We have audited the accompanying financial statements of Microfinance Organization Giro Credit Limited Liability Company (the "MFO"), which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (the "Financial Statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the Financial Statements in accordance with International Financial Reporting Standard for Small and Medium-sized Entities ("IFRS for SMEs"). This responsibility includes maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies that are consistent with IFRS for SMEs; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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 entity's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

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

Opinion

In our opinion, the accompanying Financial Statements present fairly, in all material respects, the financial position of the MFO as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standard for Small and Medium-sized Entities.

4 April 2014
Capto Group
The member of RSM

Capto Group. The member firm of RSM.

MFO GIRO CREDIT LLC
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 DECEMBER 2013

STATEMENT OF COMPREHENSIVE INCOME

		2013	2012
	Notes	GEL	GEL
INTEREST INCOME	4	820,849	606,882
Interest expense	4	(197,606)	(102,495)
Net interest income	4	623,243	504,387
Loan impairment losses	10	(189,108)	(107,676)
Net interest income after loan impairment losses		434,135	396,711
Income from fines	5	161,840	65,706
Net gain from currency trading		36,571	938
Other operating income		21,787	41,700
Operating expenses	6	(191,435)	(60,893)
Net foreign exchange translation gain/(loss)	7	28,926	(1,885)
Profit before tax		491,824	442,277
Income tax expense	8	(102,357)	(82,684)
Profit for the year		389,467	359,593

Approved for issue and signed on behalf of the Management Board on 4 April 2014.



 Giorgi Gugumberidze
 Director




 Mariana Mkhitarian
 Accountant


MFO GIRO CREDIT LLC
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STATEMENT OF FINANCIAL POSITION

	Notes	2013 GEL	2012 GEL
ASSETS			
Property and equipment	9	353,669	297,618
Loans to customers	10	2,346,403	1,012,768
Current income tax asset		32,991	-
Other assets		541	11,539
Cash and cash equivalents	11	123,370	44,863
TOTAL ASSETS		2,856,974	1,366,788
EQUITY			
Owners' capital	12	251,083	251,083
Retained earnings		706,270	350,826
TOTAL EQUITY		957,353	601,909
LIABILITIES			
Borrowings	13	1,839,740	681,732
Deferred income tax liability	14	52,153	342
Other liabilities		7,728	16,943
Current income tax liability		-	65,862
TOTAL LIABILITIES		1,899,621	764,879
TOTAL LIABILITIES AND EQUITY		2,856,974	1,366,788

Approved for issue and signed on behalf of the Management Board on 4 April 2014.


 Giorgi Gugumberidze
 Director



 Mariana Mkhitarian
 Accountant

MFO GIRO CREDIT LLC
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STATEMENT OF CHANGES IN EQUITY

	Owners' capital	Retained earnings	TOTAL
	GEL	GEL	GEL
Balance at 1 January 2012	251,083	86,671	337,754
PROFIT FOR THE YEAR	-	359,593	359,593
TOTAL COMPREHENSIVE INCOME	-	359,593	359,593
Dividend paid - Final for 2011	-	(95,438)	(95,438)
Balance at 31 December 2012	251,083	350,826	601,909
PROFIT FOR THE YEAR	-	389,467	389,467
TOTAL COMPREHENSIVE INCOME	-	389,467	389,467
Dividend paid - Final for 2012	-	(34,023)	(34,023)
BALANCE AT 31 DECEMBER 2013	251,083	706,270	957,353

Approved for issue and signed on behalf of the Management Board on 4 April 2014.



 Giorgi Gugumberidze
 Director




 Mariana Mkhitarian
 Accountant

MFO GIRO CREDIT LLC
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STATEMENT OF CASH FLOWS

		2013	2012
	Notes	GEL	GEL
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		389,467	359,593
Adjustments for:			
Income tax expense		102,357	82,684
Depreciation and amortization	6	14,096	1,614
Loss on sale of office equipment		1,059	-
Changes in operating assets and liabilities:			
Increase in loans to customers		(1,333,635)	(478,327)
Decrease/(increase) in other assets		10,998	(10,828)
Decrease in other liabilities		(9,215)	(13,244)
Cash used in operations		(824,873)	(58,508)
Income tax paid		(149,400)	(33,559)
Net cash used in operating activities		(974,273)	(92,067)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	9	(71,650)	(295,815)
Proceeds from disposal of property and equipment		445	-
Net cash used in investing activities		(71,205)	(295,815)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in borrowings		1,158,008	507,442
Dividends paid		(34,023)	(95,438)
Net cash generated by financing activities		1,123,985	412,004
INCREASE IN CASH AND CASH EQUIVALENTS		78,507	24,122
MOVEMENT IN CASH AND CASH EQUIVALENTS			
At start of year		44,863	20,741
Increase		78,507	24,122
AT END OF YEAR	11	123,370	44,863

Approved for issue and signed on behalf of the Management Board on 4 April 2014.


 Giorgi Gugumberidze
 Director


 Mariana Mkhitarian
 Accountant

NOTES

1 General information

Microfinance Organization Giro Credit Limited Liability Company ("the MFO") is domiciled in and registered under the laws of Georgia (the date of incorporation: 21 October 2010). The address of its office is 3 Gamsakhurdia avenue, Tbilisi, Georgia. The MFO operates as lending organization offering micro loans (up to GEL 50,000 per borrower) collateralized by motor vehicles, precious metals, real estate, and computer and other equipment. It was registered as microfinance organization by National Bank of Georgia on 20 December 2011.

The founder and sole owner of the MFO is Giorgi Gugumberidze.

The Company employed total staff of 12 as at 31 December 2013 (31 December 2012: 4).

These financial statements were approved for issue by the management on 4 April 2014.

2 Basis of preparation and summary of significant accounting policies

These financial statements have been prepared on a going concern basis and in compliance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board. They are presented in Georgian Lari ("GEL"). The measurement basis used is the historical cost basis, except where otherwise stated in the accounting policies below.

Financial instruments

(a) Loans to customers

Loans to customers are initially recognised at the transaction price (including transaction costs) and subsequently measured at amortised cost using the effective interest method.

At the end of each reporting period, the MFO assesses whether there is objective evidence of impairment of the financial assets that are measured at cost or amortised cost. If there is objective evidence of impairment, the MFO recognises an impairment loss in profit or loss immediately. The impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate.

(b) Borrowings

Borrowings are initially recognised at the transaction price (including transaction costs) and subsequently measured at amortised cost using the effective interest method.

Income and expense recognition

(a) Interest income and expense

Interest income and expense are recognised using the effective interest method.

(b) Income from fines

Income from fines is recognised when the management decides to exercise its right to impose fine on borrower due to breaching loan agreement.

NOTES (CONTINUED)

(c) Net gain from currency trading

The gain/loss from currency trading is measured as difference between the exchange rate used in trading and official exchange rate of the National Bank of Georgia at the date of the transaction and recognized as a result of the transaction.

(d) Operating expenses

Staff costs – gross salaries, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees. The Company does not have post-employment benefit obligations.

Office rent – rentals payable under operating leases are accrued on a straight-line basis over the term of the relevant lease.

Translation of foreign currencies

The functional currency of the MFO is Georgian Lari ("GEL"). Transactions in foreign currencies are initially recorded in the functional currency using the official exchange rates of the National Bank of Georgia ("NBG") at the date of the transaction. Foreign currency monetary items at the reporting date are translated using the closing rate. All exchange differences arising on settlement are recognised in profit or loss.

The applicable exchange rates used were:

	Official currency rate of the NBG	
	USD	EUR
Exchange rate as at 31 December 2013	1.74	2.39
Exchange rate as at 31 December 2012	1.66	2.18
Average rate for the year ended 31 December 2013	1.66	2.21
Average rate for the year ended 31 December 2012	1.65	2.12

Income tax

Income tax expense represents the aggregate amount included in profit or loss for the period in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable or refundable in respect of the taxable profit or loss for the current or prior periods.

A deferred income tax asset or liability is recognised for tax recoverable or payable in future periods as a result of past transactions or events. Deferred income tax arises from differences (known as temporary differences) between the carrying amounts of assets and liabilities in the statement of financial position and their corresponding tax bases. The tax bases of assets are determined by the consequences of sale of the assets.

Deferred income tax liabilities are recognised for all temporary differences that are expected to increase taxable profit in the future. Deferred income tax assets are recognised for all temporary differences that are expected to reduce taxable profit in the future and any unused tax losses.

Deferred income tax assets are measured at the highest amount that is more likely than not to be recovered, based on current or estimated future taxable profit. The net carrying amount of deferred income tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognised in profit or loss, unless attributable to an item in other comprehensive income.

Deferred income tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which management expects the deferred income tax asset to be realised or the deferred income tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES (CONTINUED)

Owners' capital and dividends payable

Owners' capital is determined by the decision of MFO's founder. Dividends are recognised as a liability in the year in which they are declared.

Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Construction in progress is not depreciated. For all other assets, depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. 2% annual rate is used for the depreciation of office space and 14% - for office equipment.

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

On disposal, the difference between the net disposal proceeds and the carrying amount of the item sold is recognised in profit or loss.

At each reporting date, property and equipment are reviewed to determine whether there is any indication that the assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

3 Judgements and key sources of estimation uncertainty

Management has made key assumptions regarding the impairment of financial assets, as disclosed in Note 10.

4 Interest income and expense

	2013	2012
	GEL	GEL
Interest income from loans collateralized by motor vehicles	330,552	344,364
Interest income from loans collateralized by precious metals	218,529	131,034
Interest income from loans collateralized by real estate	142,434	37,821
Interest income from loans collateralized by computer and other equipment	129,334	93,663
	820,849	606,882
Interest expense on loans from banks	(108,298)	(46,821)
Interest expense on loans from individuals	(89,308)	(55,674)
	(197,606)	(102,495)
NET INTEREST INCOME	623,243	504,387

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NOTES (CONTINUED)

5 Income from fines

	2013	2012
	GEL	GEL
Income from fines on loans collateralized by motor vehicles	86,773	59,013
Income from fines on loans collateralized by precious metals	54,111	4,597
Income from fines on loans collateralized by real estate	20,956	2,096
	161,840	65,706

6 Operating expenses

	2013	2012
	GEL	GEL
Staff costs	113,740	33,627
Depreciation and amortization	14,096	1,614
Professional services	12,280	5,880
Marketing	10,325	255
Office rent	9,989	9,916
Communication	7,465	2,180
Utilities	5,938	1,113
Taxes other than income tax	4,902	1,489
Other operating expenses	12,700	4,819
	191,435	60,893

7 Net foreign exchange translation gain/(loss)

	2013	2012
	GEL	GEL
Foreign exchange translation gain	107,190	64,468
Foreign exchange translation loss	(78,264)	(66,353)
	28,926	(1,885)

8 Income tax expense

	2013	2012
	GEL	GEL
Current tax	50,292	82,665
Deferred tax (Note 14)	52,065	19
	102,357	82,684

Income tax is calculated at 15 per cent (2012: 15 per cent) of the estimated assessable profit for the year.

Income tax expense for the year ended 31 December 2013 of GEL 102,357 (2012: GEL 82,684) differs from the amount that would result from applying the tax rate of 15 per cent (both 2013 and 2012) to profit before tax because the MFO does not deduct loan impairment losses from taxable profit.

MFO GIRO CREDIT LLC
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NOTES (CONTINUED)

9 Property and equipment

	Office space	Office equipment	Construction in progress	Total
	GEL	GEL	GEL	GEL
COST				
At 1 January 2013	-	16,043	283,621	299,664
Additions	14,132	57,518	-	71,650
Transfers	284,291	(670)	(283,621)	-
Disposals	-	(2,758)	-	(2,758)
At 31 December 2013	298,423	70,133	-	368,556
ACCUMULATED DEPRECIATION				
At 1 January 2013	-	2,046	-	2,046
Annual depreciation	6,379	7,598	-	13,977
Less accumulated depreciation on assets disposed of	-	(1,136)	-	(1,136)
At 31 December 2013	6,379	8,508	-	14,887
CARRYING AMOUNT				
AT 31 DECEMBER 2013	292,044	61,625	-	353,669

The office space was purchased on 30 October 2012 for USD 160,000 (GEL 265,536). Its address is 3 Gamsakhurdia Ave., Tbilisi. The office space is pledged under the loan from bank (see Note 13).

10 Loans to customers

	2013	2012
	GEL	GEL
Loans collateralized by precious metals	1,452,342	330,238
Loans collateralized by real estate	585,423	304,953
Loans collateralized by motor vehicles	420,923	397,484
Loans collateralized by computer and other equipment	87,444	54,054
Total loans to customers (before impairment)	2,546,132	1,086,729
Less: Provision for loan impairment	(199,729)	(73,961)
	2,346,403	1,012,768

Movements in the provision for loan impairment during 2013 were as follows:

	Loans collateralized by motor vehicles	Loans collateralized by precious metals	Loans collateralized by real estate	Loans collateralized by computer and other equipment	Total
	GEL	GEL	GEL	GEL	GEL
At 1 January 2013	26,557	20,937	13,191	13,276	73,961
Provision for impairment during the year	(10,180)	150,816	12,711	35,761	189,108
Amounts written off during the year as uncollectible	(6,921)	(34,325)	-	(22,094)	(63,340)
AT 31 DECEMBER 2013	9,456	137,428	25,902	26,943	199,729

MFO GIRO CREDIT LLC
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NOTES (CONTINUED)

At the end of each reporting period, the management assesses whether there is objective evidence of impairment of loans to customers and on the basis of this assessment, estimates the future cash flows from the financial asset (including estimated value of collateral in case the instalments made by borrower are not sufficient to repay the loan). Objective evidence of the impairment includes observable data that come to the attention about the following loss events:

- (a) significant financial difficulty of the borrower;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments.

Loans collateralized by motor vehicles are initially given for the 3 months term with interest payable monthly and principal at maturity. However if the monthly interest is repaid timely, the principal repayment may be rescheduled every 3 months. Weighted average monthly interest rate on the loans outstanding as at 31 December 2013 was 5.53% (31 December 2012: 6.56%).

Loans collateralized by precious metals are initially offered for 1 month terms. However if there are no past due payments, the repayment of principal may be rescheduled every 1 month. Weighted average monthly interest rate on the loans outstanding as at 31 December 2013 was 2.01% (31 December 2012: 3.52%). The precious metals are pledged under the loan from bank (see Note 13).

Loans collateralized by real estate are initially given for 6 months with interest payable monthly and principal at maturity. However if the monthly interest is paid timely, the principal repayment may be rescheduled for every 6 months. Weighted average monthly interest rate on the loans outstanding as at 31 December 2013 was 2.78% (31 December 2012: 2.99%).

Loans collateralized by computer and other equipment are initially given for 15 days. However if there is no overdue payments, the repayment of principal may be rescheduled for every 15 days. Weighted average monthly interest rate on the loans outstanding as at 31 December 2013 was 16.84% (31 December 2012: 20.00%).

All the loans are issued in USD.

Credit quality of loans as at 31 December 2013 were as follows (the loans that are no longer being repaid by the customers and the MFO has decided to recover by selling underlying collateral are classified as bad debts):

	Loans collateralized by motor vehicles	Loans collateralized by precious metals	Loans collateralized by real estate	Loans collateralized by computer and other equipment	Total
	GEL	GEL	GEL	GEL	GEL
Loans without overdue payments	367,440	1,097,201	545,353	14,913	2,024,907
Loans with overdue payments	42,241	235,894	40,070	54,435	372,640
Bad debts	11,242	119,247	-	18,096	148,585
Total loans to customers (before impairment)	420,923	1,452,342	585,423	87,444	2,546,132
Less: Provision for loan impairment	(9,456)	(137,428)	(25,902)	(26,943)	(199,729)
TOTAL LOANS TO CUSTOMERS	411,467	1,314,914	559,521	60,501	2,346,403

NOTES (CONTINUED)

11 Cash and cash equivalents

	2013	2012
	GEL	GEL
Cash in hand	122,399	34,660
Cash at current bank account	971	10,203
	123,370	44,863

12 Owners' capital

According to the decision #4 of the MFO's sole founder Giorgi Gugumberidze dated 12 December 2011, the MFO's authorized capital was determined to be GEL 251,083 contributable in cash.

13 Borrowings

	2013	2012
	GEL	GEL
NON-CURRENT		
Long-term loan from bank	-	88,258
	-	88,258
CURRENT		
Current portion of long-term loan from bank	92,476	160,247
Short-term loan from bank	1,233,114	-
Loans from individuals	514,150	433,227
	1,839,740	593,474
TOTAL BORROWINGS	1,839,740	681,732

Loans from banks as at 31 December 2013 consist of the following loans:

	Maturity date	Annual interest rate	Amount in USD	Equivalent in GEL
TBC Bank JSC ("TBC loan")	20 March 2014	14%	710,196	1,233,114
Bank of Georgia JSC ("BoG loan")	30 June 2014	13%	53,260	92,476
			763,456	1,325,590

TBC loan is the credit line with the limit of USD 1,000,000. Its interest is payable monthly and the principal is repayable on the maturity date. The loan is secured by the precious metals pledged under the loans to customers (see Note 10). Regarding repayment of the loan refer to Note 17.

BoG loan is secured by the office space (see Note 9) and the living space owned by Gela Gugumberidze (the MFO's sole founder's family member). It is repayable in monthly equal instalments until the maturity date.

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NOTES (CONTINUED)

Loans from individuals as at 31 December 2013 consist of the following blank loans with interest payable monthly and the principal repayable on the maturity date:

	Maturity date	Annual interest rate	Amount in USD	Equivalent in GEL
Davit Lekvtadze	31 December 2014	18%	180,000	312,534
Goderdzi Sharvadze	31 December 2014	15%	55,000	95,497
Ketevan Pirtskhalaishvili	18 March 2014	16%	20,000	34,726
Olesia Kuprianchuk	5 November 2014	16%	10,900	18,926
Irma Zhorzholadze	30 December 2014	14%	10,000	17,363
Other	June-December 2014	14-18%	20,218	35,104
			296,118	514,150

14 Deferred income tax

The deferred income tax liability is the tax effect of expected future income tax benefit relating to differences between the carrying amounts and tax written down values of property and equipment. Deferred income tax liability as at 31 December 2013 and 2012 were GEL 52,153 and GEL 342, respectively and deferred income tax expense during the period was GEL 52,065 (2012: GEL 19).

15 Commitments under operating leases

The MFO rents office space (31 Kazbegi street, Tbilisi) under non-cancellable operating lease agreement with maturity on 1 September 2017.

At year-end, the MFO has outstanding commitments under non-cancellable operating leases that fall due as follows:

	2013	2012
	GEL	GEL
Within one year	10,418	9,940
Later than one year but not later than five years	27,781	36,447
Later than five years	-	-
TOTAL FUTURE MINIMUM LEASE PAYMENTS	38,199	46,387

16 Related party transactions

The following table illustrates the material transactions with related parties that occurred during the period concerned and outstanding balances with related parties at 31 December 2013:

	2013	2012
	GEL	GEL
AMOUNT OF TRANSACTIONS:		
Interest expense	53,971	25,790
OUTSTANDING BALANCES:		
Borrowings	312,534	82,835

Key management compensation in 2013 was GEL 22,000 (2012: GEL 22,000).

NOTES (CONTINUED)

17 Events after the end of the reporting period

On 23 January 2014 the MFO purchased office space (address: 19a Kazbegi Ave., Tbilisi) for USD 149,500 (GEL 266,379).

On 28 February 2014 the MFO received loan of USD 330,000 from Bank of Georgia JSC (maturity: 18 months; collateral: office spaces owned by the MFO and living spaces owned by MFO's sole founder's family members).

On 2 April 2014 the MFO concluded credit line agreement with TBC Bank JSC. The credit line limit is USD 1,500,000 (maturity: 12 months; collateral: precious metals).