MFO Giro Credit LTD

Financial Statements and

Independent Auditor's Report

Year ended 31 December 2017

Contents:

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INDEPENDENT AUDITOR'S REPORT

To the management of MFO Giro Credit Ltd

Opinion

We have audited the financial statements of **MFO GIRO CREDIT LTD**, (hereinafter - the Company) which comprise the statement of financial position as at 31 December 2017, and the statements of comprehensive income, changes in equity and 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 Company 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 Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia.

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

Responsibilities of Management and Those Charged with Governance 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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 scepticism 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 Company'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 Company'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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

Other Matter

As part of our audit of the 2017 financial statements we also audited the adjustments described in Note 22 that were applied to amend the financial statements prepared as at 31 December 2016 and 1st January 2016, which were audited by other auditor and they expressed an unmodified opinion on those financial statements on 3 August 2017. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the financial statements of the Company prepared as of 31 December 2016 and 1st January 2016 other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the financial statements prepared as of 31 December 2016 and 1st January 2016, taken as a whole.

The engagement partner responsible for the audit resulting in this independent auditor's report is Ivane Zhuzhunashvili.

For and on behalf of BDO LLC

Tbilisi, Georgia

24 May 2018

MFO GIRO CREDIT LTD

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(In GEL)

	Note	2017	2016*
Interest income	4	1,891,032	1,517,970
Interest expense	5	(980,982)	(615,144)
Net interest income		**910,050**	**902,826**
Loan impairment allowance	12	(55,546)	(113,580)
Net interest income after loan impairment allowance		**854,504**	**789,246**
Other income	6	872,216	945,657
Employee benefit expenses	7	(536,958)	(321,313)
Depreciation and amortization	11	(102,215)	(84,996)
Other expenses	8	(391,255)	(194,727)
Net gain from financial assets at fair value through profit and loss	14	5,037	-
Foreign Exchange gain	9	172,454	124,738
Profit before taxation		**873,783**	**1,258,605**
Income tax expense	10	(155,234)	(107,829)
Profit for the year		**718,549**	**1,150,776**

*The effect of changes of comparative information on the statement of financial performance is disclosed in Note 22 to these financial statements.

These financial statements were approved by management on 24 May 2018 and were signed on its behalf by:

General Director	Giorgi Gugumberidze	Giorgi Gugumberidze
Accountant	M. Mkhitaryan	Mariana Mkhitariani

MFO GIRO CREDIT LTD

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2017

(In GEL)

	Note	31.12.2017	31.12.2016*	01.01.2016*
Assets				
Fixed and intangible assets	11	1,445,100	1,427,252	805,055
Loans to customers	12	8,356,910	7,466,191	6,195,410
Tax assets	18	-	4,086	-
Other assets	13	44,476	35,613	235
Financial assets recognized at fair value through profit or loss	14	5,037	-	-
Cash and cash equivalents	15	2,181,322	888,668	978,081
Total assets		**12,032,845**	**9,821,810**	**7,978,781**
Equity and liabilities				
Owner's equity				
Statutory capital		251,083	251,083	251,083
Retained earnings		3,560,613	3,072,801	1,922,025
Total equity		**3,811,696**	**3,323,884**	**2,173,108**
Liabilities				
Borrowed funds	16	8,009,382	6,446,059	5,560,603
Deffered tax liability	10	6,482	20,343	107,681
Other liabilities	17	49,786	31,524	4,625
Tax liability	18	155,499	-	132,764
Total liabilities		**8,221,149**	**6,497,926**	**5,805,673**
Total equity and liabilities		**12,032,845**	**9,821,810**	**7,978,781**

*The effect of changes of comparative information on the statement of financial position is disclosed in Note 22 to these financial statements

MFO GIRO CREDIT LTD

STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2017

(In GEL)

	Statutory capital	Retained earnings	Total
Balance at 1 January 2016	**251,083**	**1,922,025**	**2,173,108**
Total comprehensive income for the year	-	1,150,776	**1,150,776**
Balance at 31 December 2016	**251,083**	**3,072,801**	**3,323,884**
Total comprehensive income for the year	-	718,549	**718,549**
Dividend paid	-	(230,737)	**(230,737)**
Balance at 31 December 2017	**251,083**	**3,560,613**	**3,811,696**

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(In GEL)

	Note	2017	2016*
Cash flows from operating activities			
Profit before taxation		**873,783**	**1,258,605**
Adjustments:			
Loan impairment allowance	12	55,546	113,580
Depreciation and Amortization	11	102,215	84,996
Interest expense	5	980,982	615,144
Interest income	4	(1,891,032)	(1,517,970)
Gain from the sale of fixed assets	11	-	(3,945)
Net gain from financial assets at fair value through profit and loss	14	(5,037)	-
Foreign exchange gain	9	(172,454)	(124,738)
Cash flows before changes in working capital		**(55,997)**	**425,672**
Increase of loans to customers		(1,206,669)	(774,470)
Increase of other assets		(8,863)	(42,321)
Increase of tax and other liabilities		34,398	31,168
Cash flows from operating activities		**(1,237,131)**	**(359,951)**
Interest received		2,109,360	1,470,360
Interest paid	16	(877,678)	(595,700)
Dividend paid		(230,737)	-
Profit tax paid		(25,645)	(336,286)
Net cash used in operating activities		**(261,831)**	**178,423**
Investing activities			
Purchase of fixed assets		(120,064)	(717,343)
Sale of fixed assets		-	21,040
Net cash used in investing activities		**(120,064)**	**(696,303)**
Financing activities			
Payment of borrowed funds	16	(6,462,034)	-
Receipt of borrowed funds	16	8,100,307	366,180
Net cash flows from financing activities		**1,638,273**	**366,180**
Net Increase/(decrease) in cash and cash equivalents		**1,256,378**	**(151,700)**
Cash and cash equivalents at the beginning of year	15	**888,668**	**978,081**
Effect of changes in foreign exchange rate on cash and cash equivalents	9	36,276	62,287
Cash and cash equivalents at the end of year	15	**2,181,322**	**888,668**

*The effect of changes of comparative information on the statement of cash flows is disclosed in Note 22 to these financial statements.

The notes set out on pages 9 to 34 form an integral part of these financial statements.

1. General information

Microfinance organization MFO Giro Credit Ltd (the “Company”) was established on October 21, 2010. Microfinance organization status was registered by National Bank of Georgia on 20 December, 2011. The main activity of the Company is issuing micro loans with and without collateral.

As at 31 December 2017 and 2016 and 1st January 2016 the Company was 100% owned by individual Giorgi Gugumberidze.

The Company’s legal address is Gamsakhurdia street 3, Tbilisi, Georgia.

2. Summary of significant accounting policies

Basis of preparation

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

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

The financial statements have been prepared under the historical cost base.

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

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the most appropriate application in applying the accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 3.

Adoption of new or revised standards and interpretations

a) New standards, interpretations and amendments effective from 1 January 2017

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2017 that had a significant effect on the Company’s financial statements. None of the amendments to Standards that are effective from that date had a significant effect on the Company’s financial statements.

Amendments to IAS 7 statement of cash flows: disclosure initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company has provided the information for the current period in Note 14.

b) New standards, interpretations and amendments not yet effective

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018, and which the Company has not early adopted. This listing of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date, therefore intends to adopt those standards when they become effective:

2. Summary of significant accounting policies (Continued)

IFRS 15 “Revenue from Contracts with Customers”

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. This standard is effective for annual periods beginning on or after 1 January 2018.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. The Company is currently assessing the possible impact of the new standard on its financial statements.

IFRS 9 “Financial Instruments: Classification and Measurement”

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

2. Summary of significant accounting policies (Continued)

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

IFRS 16 "Leases"

In January 2016 the IASB issued IFRS 16 Leases. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The accounting requirements for lessors have largely been carried forward unchanged from IAS 17. This means that a lessor continues to classify leases as operating or finance. The major changes are for lessees, with IFRS 16 setting out a single model for lessees which eliminates the distinction between operating and finance leases, and results in the statement of financial position reflecting a 'right of use' asset and a corresponding liability for most lease contracts. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate implicit in the lease. IFRS 16 has an effective date of 1 January 2019, with early application permitted only if IFRS 15 has also been adopted.

The Company is currently assessing the possible impact of the new standards on its financial statements. This standard is effective for annual periods beginning on or after 1 January 2018.

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

Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency' - GEL).

Transactions in currencies other than operational currency are considered as a transaction in a foreign currency and accounted for in accordance with IAS 21 – "The effects of changes in Foreign exchange rates".

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are premeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Foreign exchange gains and losses that relate to monetary items are presented in the statement of comprehensive income within "Foreign exchange gain".

2. Summary of significant accounting policies (Continued)

At 31 December 2017, 2016 and 1st January 2016 the exchange rates used for translating foreign currency balances were:

	31.12.2017	31.12.2016	01.01.2016
GEL/1 US Dollar	2.5922	2.6468	2.3949
GEL/1 EURO	3.1044	2.7940	2.6169

Financial Instruments

Financial assets

The Company classifies all its financial assets as loans and receivables and fair value through profit or loss. The Company determines the classification of its financial assets upon initial recognition.

(a) Loans and receivables

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

The main factors that are considered in the assessment of impairment of the financial asset is delay in payment and the possibility of sale of collateral.

In evaluating the financial asset on impairment, the following factors are considered:

• Deterioration of the financial condition of the borrower which appears from its financial information;

• Beginning of the bankruptcy process of the borrower;

• Delay in payment due to national and local economic factors;

• A substantial reduction in the value of the colateral due to external factors.

The amount of impairment allowance is the difference between the discounted value of future cash flows related to impaired receivables and their carrying amount. An impairment allowance is considered based on collective and individual analysis of risk-taking assets. Financial assets are grouped according to common credit risks. Future cash flows for a financial asset group are evaluated based on past experiences, considering the current factors that were not in the past and are excluded from the factors that have occurred in the past and are not relevant in the current period.

The company carries out individual assessment for impairment of mortgage loans and collective assessment for other types of loans.

Allowance for impairment are recorded in a separate allowance account with the loss being recognized in the statement of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for financial assets and the amount of the loss is recognised in profit or loss. Subsequent recoveries of amounts previously written off are credited in profit or loss.

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

The Company's loans and receivables comprise loans to customers and cash and cash equivalents. Cash and cash equivalents includes cash on current accounts.

2. Summary of significant accounting policies (Continued)

(b) Fair value through profit or loss

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

(a) It is classified as held for trading. A financial asset is classified as held for trading if it is:

(i) It is acquired or incurred principally for selling or repurchasing it in the near term

(ii) On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(iii) It is a derivative (except for a derivative that is a financial guarantee contract or designated and effective hedging instrument).

All trading derivatives with positive fair value are recorded as assets. All trading derivatives with negative fair value are recorded as liabilities.

The Company's financial asset at fair value through profit or loss includes currency swap contracts.

The Company does not have available-for-sale financial assets and held-to-maturity investments.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

(a) Fair value through profit or loss

A financial liability at fair value through profit or loss is a financial liability that meets either of the following conditions:

(a) It is classified as held for trading

(b) Upon initial recognition it is designated by the entity as at fair value through profit or loss.

In current period the Company does not have financial liabilities at fair value through profit or loss.

(b) *Other financial liabilitie*s

Other financial liabilities include other liabilities and borrowed funds which are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

The Company derecognises financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

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

Property and equipment

Property and equipment, are stated at cost, less accumulated depreciation and allowance for impairment, where required. The cost of an item of property and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably.

2. Summary of significant accounting policies (Continued)

The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or devalued amounts to their residual values over their estimated useful lives. Depreciation is charged to the statement of profit or loss. Depreciation is calculated on a straight line basis at the following useful lives:

Group	Useful lives (year)
Buildings	50
Furniture and office equipment	2-7
Vehicles	7
Other	7-10
Construction in progress	Not depreciating

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The carrying amount of an item of property and equipment shall be derecognised on disposal; or when no future economic benefits are expected from its use or disposal.The gain or loss arising from the derecognition of an item of property and equipment shall be included in profit or loss when the item is derecognised.

Impairment of tangible and intangible assets other than Goodwill

The Company assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss is recognised immediately in profit or loss. After the recognition of an impairment loss, the depreciation charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

An entity assesses at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset. An impairment loss recognised in prior periods for an asset other than goodwill is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss for an asset other than goodwill is recognised immediately in profit or loss.

Recognition of finance expense and financial income

Interest is recorded in relation to all financial instruments at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period. Interest income or expense is recognised in income statement.

2. Summary of significant accounting policies (Continued)

When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current effect of deferred taxes are recognized as an expense or income in statement of profit or loss except when they relate to items that are recognized in other comprehensive income, in which case the tax is also recognized outside statement of profit or loss.

Taxes other than income tax

Taxes other than income tax are recognised when obligating events have occurred. The obligating events are an event that raises a liability to pay a tax. Taxes are calculated in accordance with Georgian legislation. Prepaid taxes are recognised as assets.

Recognition of other income and expenses

Income other than interest income is recognized when there is evidence that future economic benefit will flow to the entity and amount of it can be reliably measured.

Expenses are recognized in the income statement if there arises any decrease of future economic profit related to the decrease of an asset or increase of a liability that can be reliably assessed. Expenses are recognized in the income statement immediately, if the expenses do not result in future economic profit any more, or if future economic profit do not meet or stop to meet the requirements of recognition as an asset in the balance sheet.

Employee benefit expenses

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

2. Summary of significant accounting policies (Continued)

Operating Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases:

The Company as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

3. Critical accounting estimates and judgements

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

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

• **Income taxes. During the ordinary course of business,** there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities based on estimates of whether additional taxes will be due. These tax liabilities are recognized when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. As a result the Company minimizes the risks related to this fact.

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

4. Interest income

Interest income for the years ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Loans collateralized by precious stones	896,942	780,594
Loans collateralized by real estate	413,991	463,122
Loans collateralized by vehicles	168,133	240,041
Loans without collateral	411,966	34,213
Total	**1,891,032**	**1,517,970**

5. Interest expense

Interest expense for the years ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Loans from banks	(644,345)	(392,367)
Loans from individuals	(314,230)	(221,851)
Loans from legal entities	(22,407)	(926)
Total	**(980,982)**	**(615,144)**

6. Other income

Other income for the years ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Gain from currency trading	492,179	568,263
Income from penalties	325,810	352,407
Other	54,227	24,987
Total	**872,216**	**945,657**

7. Employee benefit expenses

Employee benefit expenses for the years ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Salary	(513,849)	(313,139)
Bonuses	(23,109)	(8,174)
Total	**(536,958)**	**(321,313)**

8. Other expenses

Other expenses for the years ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Office supply	(95,192)	(58,228)
Bank commission fee	(61,590)	(16,341)
Penalties and fees	(59,800)	(4,800)
Rent	(45,264)	(18,513)
Taxes (other than income tax)	(31,924)	(21,045)
Utility	(23,709)	(13,782)
Communication expenses	(12,732)	(11,345)
Consulting and other professional services	(22,425)	(24,100)
Other	(38,617)	(26,573)
Total	**(391,253)**	**(194,727)**

For the years ended 31 December 2017 and 2016 fee of audit and other professional services received from audit companies is GEL11,000 and GEL10,000 respectively.

9. Foreign exchange gain

Foreign exchange gain for the years ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Cash and cash equivalents	36,276	62,287
Other financial instruments	136,178	62,451
Total	**172,454**	**124,738**

10. Income tax

According to Tax Code of Georgia income tax rate is 15%.

Effective income tax rate is different from rate established by the legislation. Income tax expense reconciliation according to legislation and actual rate is the following:

	2017	2016
Profit before taxation	**873,783**	**1,258,605**
Applicable tax rate established by the legislation	15%	15%
Theoretical income tax	**(131,067)**	**(188,791)**
Permanent effect of non-deductible expenses	(24,167)	-
Permanent effect of income recognized for tax purposes	-	80,962
Income tax expense	**(155,234)**	**(107,829)**

Income tax expense for the years ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Current income tax	(169,095)	(195,167)
Deffered income tax	13,861	87,338
Total	**(155,234)**	**(107,829)**

10. Income tax (Continued)

The tax effects of the movements in temporary differences recorded at the rate of 15% for the year ended 31 December 2017 are as follows:

	31.12.2016	Change in profit/loss	31.12.2017
Deductible temporary differences			
Borrowed funds	3,130	12,312	15,442
Other liabilities	2,002	3,622	5,624
Deffered income tax asset, gross	**5,132**	**15,934**	**21,066**
Taxable temporary differences			
Fixed and intangible assets	(25,475)	(1,865)	(27,340)
Loans to customers	-	(208)	(208)
Deffered income tax liability, gross	**(25,475)**	**(2,073)**	**(27,548)**
Deffered income tax liability, net	**(20,343)**	**13,861**	**(6,482)**

The tax effects of the movements in temporary differences recorded at the rate of 15% for the year ended 31 December 2016 are as follows:

	01.01.2016	Change in profit/loss	31.12.2016
Deductible temporary differences			
Borrowed funds	-	3,130	**3,130**
Other liabilities	-	2,002	**2,002**
Deffered income tax asset, gross	**-**	**5,132**	**5,132**
Taxable temporary differences			
Fixed and intangible assets	(107,681)	82,206	**(25,475)**
Deffered income tax liability, gross	**(107,681)**	**82,206**	**(25,475)**
Deffered income tax liability, net	**(107,681)**	**87,338**	**(20,343)**

11. Fixed and intangible assets

Fixed and intangible assets as at 31 December 2017 and 2016 and 1st January 2016 can be presented as follows:

Historical cost	Buildings	Office equipment	Vehicles	Consturction in progress	Other	Total
Balance at 1 January 2016	**611,298**	**168,332**	**23,933**	**84,284**	**4,033**	**891,880**
Addition	445,014	125,569	145,915		7,789	**724,287**
Internal movement	84,284	-	-	(84,284)	-	**-**
Disposal	-	-	(23,933)	-	-	**(23,933)**
Balance at 31 December 2016	**1,140,596**	**293,901**	**145,915**	**-**	**11,822**	**1,592,234**
Addition	1,866	43,751	73,524	-	922	**120,063**
Balance at 31 December 2017	**1,142,462**	**337,652**	**219,439**	**-**	**12,744**	**1,712,297**
Accumulated depreciation						
Balance at 1 January 2016	**(31,785)**	**(46,923)**	**(6,838)**	**-**	**(1,279)**	**(86,825)**
Depreciation for the year	(23,293)	(39,023)	(20,845)	-	(1,835)	**(84,996)**
Accumulated depreciation of disposals	-	-	6,839	-	-	**6,839**
Balance at 31 December 2016	**(55,078)**	**(85,946)**	**(20,844)**	**-**	**(3,114)**	**(164,982)**
Depreciation for the year	(23,330)	(45,462)	(31,348)	-	(2,075)	**(102,215)**
Balance at 31 December 2017	**(78,408)**	**(131,408)**	**(52,192)**	**-**	**(5,189)**	**(267,197)**
Net book value						
Balance at 1 January 2016	**579,513**	**121,409**	**17,095**	**84,284**	**2,754**	**805,055**
Balance at 31 December 2016	**1,085,518**	**207,955**	**125,071**	**-**	**8,708**	**1,427,252**
Balance at 31 December 2017	**1,064,054**	**206,244**	**167,247**	**-**	**7,555**	**1,445,100**

Bank loans are secured with office buildings in which company branches are functioning, and residential real estate owned by Gela Gugumberidze and Liana Leqvtadze (family members of the company founder).

Net book value of intangible assets as at 31 December 2017 and 2016 and 1st January 2016 is GEL5,158, 6,303 and 447, respectively.

12. Loans to customers

Loans to customers as at 31 December 2017 and 2016 and 1st January 2016 can be presented as follows:

	31.12.2017	31.12.2016	01.01.2016
Loans to customers, gross	8,539,548	7,679,823	6,399,329
Less: allowance for impairment	(182,638)	(213,632)	(203,919)
Loans to customers, net	**8,356,910**	**7,466,191**	**6,195,410**

Changes in the loan impairment allowance for the years ended December 31, 2017 and 2016:

	2017	2016
At 1st January	**(213,632)**	**(203,919)**
Increase in impairment allowance	(55,546)	(113,580)
Bad debt expenses	86,540	103,867
At 31 December	**(182,638)**	**(213,632)**

12. Loans to customers (Continued)

Allocation of doubtful debt allowance by types of loans issued as at 31 December 2017 and 2016 and January 1, 2016 can be presented as follows:

	31.12.2017	31.12.2016	01.01.2016
Loans collateralized by precious stones	(83,007)	(100,024)	(165,218)
Loans collateralized by real estate	(34,757)	(71,675)	(8,331)
Loans collateralized by vehicles	(4,292)	(30,578)	(30,370)
Loans without collateral	(60,582)	(11,355)	-
Total	**(182,638)**	**(213,632)**	**(203,919)**

Loans to customers as at 31 December 2017 and 2016 and 1st January 2016 can be presented as follows:

	31.12.2017		31.12.2016		01.01.2016	
	GEL	USD	GEL	USD	GEL	USD
Principal	4,894,262	3,505,733	1,139,448	6,365,700	24,074	6,271,113
Interest accrued	85,652	53,901	21,351	153,324	219	103,923
Loans to customers, gross	**4,979,914**	**3,559,634**	**1,160,799**	**6,519,024**	**24,293**	**6,375,036**
Less: impairment allowance	(93,172)	(89,466)	(26,142)	(187,490)	-	(203,919)
Loans to customers, net	**4,886,742**	**3,470,168**	**1,134,657**	**6,331,534**	**24,293**	**6,171,117**

The diversification of the loan portfolio by the types of loans issued as at 31 December 2017 and 2016 and January 1, 2016 may be presented as follows:

	31.12.2017	31.12.2016	01.01.2016
Loans collateralized by precious stones	4,865,872	4,657,527	4,230,835
Loans collateralized by real estate	1,799,707	1,941,587	1,623,339
Loans collateralized by vehicles	439,030	536,939	545,155
Loans without collateral	1,434,939	543,770	-
Loans to customers, gross	**8,539,548**	**7,679,823**	**6,399,329**
Less: impairment allowance	(182,638)	(213,632)	(203,919)
Loans to customers, net	**8,356,910**	**7,466,191**	**6,195,410**

The credit quality of loans issued as of 31 December 2017 and 2016 and January 1, 2016 are as follows:

	31.12.2017	31.12.2016	01.01.2016
no overdue	7,024,586	6,250,586	5,294,780
overdue less than 30 days	359,960	122,664	33,045
overdue 30-59 days	164,940	25,477	17,535
overdue 60-119 days	251,690	7,115	33,085
overdue more than 120 days	738,372	1,273,981	1,020,884
Loans to customers, gross	**8,539,548**	**7,679,823**	**6,399,329**
Less: impairment allowance	(182,638)	(213,632)	(203,919)
Loans to customers, net	**8,356,910**	**7,466,191**	**6,195,410**

Fair value of loans to customers does not differ from thier book value.

Additional information about loans to customers is disclosed in Note 19.

13. Other assets

Other assets as at 31 December 2017 and 2016 and 1st January 2016 can be presented as follows:

	31.12.2017	31.12.2016	01.01.2016
Financial assets			
Other receivables	18,353	13,535	-
Total financial assets	**18,353**	**13,535**	**-**
Non-financial assets			
Paid advances	25,563	21,914	235
Inventory	560	164	-
Total non-financial assets	**26,123**	**22,078**	**235**
Total	**44,476**	**35,613**	**235**

Additional information about other assets is disclosed in Note 19.

14. Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss represents foreign currency contracts, particularly, the Company uses currency swap contracts (Sell Georgian Lari for US Dollar) to manage currency risks. Manurity of mentioned contacts is up to a year. Unrealized gain or losses of the contracts that have not yet expired, are recognized in profit or loss, and accounted at fair value in financial assets at fair value through profit and loss. Net gain from the swap contracts for the year ended 31 December 2017 is GEL5,037.

Financial assets at fair value through profit and loss are not overdue or impaired.

15. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2017 and 2016 and 1st January 2016 can be presented as follows:

	31.12.2017	31.12.2016	01.01.2016
Petty cash	1,580,573	880,301	496,034
Cash on bank accounts	600,749	8,367	482,047
Total	**2,181,322**	**888,668**	**978,081**

Fair value of cash and cash equivalents does not differ from thier book value.

Additional information about cash and cash equivalents is disclosed in Note 19.

16. Borrowed funds

Borrowed funds as at 31 December 2017 and 2016 and 1st January 2016 can be presented as follows:

	31.12.2017	31.12.2016	01.01.2016
Principal	7,885,946	6,426,615	5,543,779
Interest	108,685	19,444	16,824
Total	**7,994,631**	**6,446,059**	**5,560,603**

16. borrowed funds (Continued)

Long-term borrowed funds as at 31 December 2017 and 2016 and 1st January 2016 can be presented as follows:

	31.12.2017	31.12.2016	01.01.2016
Loans from banks	147,406	684,564	3,680,194
Loans from individuals	-	1,222,822	-
Loans from legal entities	388,830	-	-
Total long-term borrowings	**536,236**	**1,907,386**	**3,680,194**

Short-term borrowed funds as at 31 December 2017 and 2016 and 1st January 2016 can be presented as follows:

	31.12.2017	31.12.2016	01.01.2016
Loans from banks	5,015,753	2,906,236	567,335
Loans from individuals	2,442,642	1,581,511	1,313,074
Loans from legal entities	-	50,926	-
Total short-term borrowings	**7,458,395**	**4,538,673**	**1,880,409**

Reconcilation of received loans as at 31 December, 2017 can be presented as follows:

	Current	Long-term	Total
At January 1, 2017	**4,538,673**	**1,907,386**	**6,446,059**
Cash Flows	(22,585)	783,180	**760,595**
Non-cash flows			
Effects of foreign exchange	(166,754)	(11,500)	**(178,254)**
borrowings classified as non-current at 31 December 2016 becoming current during 2017	2,142,830	(2,142,830)	**-**
Interest accruing in the year	980,982	-	**980,982**
At 31 December, 2017	**7,473,146**	**536,236**	**8,009,382**

Information about collaterals of borrowed funds from banks is presented in Note 11. Borrowed funds from individuals and legal entities are not collaterized.

Fair value of borrowed funds does not differ from their book value.

Additional information about borrowed funds is disclosed in Note 19.

17. Other liabilities

Other liabilities as at 31 December 2017 and 2016 and 1st January 2016 represent payables to suppliers with an amounts of GEL49,786, GEL31,524 and GEL4,625, respectively.

Fair value of other liabilities does not differ from their book value.

Additional information about other liabilities is disclosed in Note 19.

18. Tax asset and liability

According to the amendment to the tax legislation of Georgia, from January 1, 2016 taxes are paid on the unified treasury code. As a result, the Company's tax assets and liabilities are presented on a net basis in the financial statements prepared as at December 31, 2017 and January 1st, 2016 with and amount of GEL155,499 and GEL132,764 as tax liability, respectively. As at December 31, 2016 net amount of tax assets and liabilities represents tax asset with an amount of GEL 4,086.

19. Risk management

The activities of the Company are exposed to various risks. Risk management therefore is a critical component of its activities. Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and daily monitoring, subject to risk limits and other controls. Everyone within the Company is accountable for the risk exposures relating to his or her responsibilities. The main financial risks inherent to the Company's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates. A summary description of the Company's risk management policies in relation to those risks follows.

Capital management objectives, policies and approach

The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position.

The capital management objectives are:

- To maintain the required level of stability of the Company thereby providing a degree of security to customers.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its owners.
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.

The operations of the Company are also subject to local regulatory requirements within the jurisdiction where it operates. Such regulations Such regulatory rules determine not only the direction of activity and monitor it, but also impose certain restrictive provisions e.g. Capital adequacy to minimize the risk of default of microfinance organizations to meet unforeseen liabilities as these arise. The Company's capital management policy is to hold sufficient liquid assets to cover statutory requirements based on the National Bank of Georgia directives

The National Bank of Georgia establishes the regulation for determining the minimum amount of capital for microfinance organizations. As of December 31, 2017 and 2016 and 1st January 2016, the Company met the requirements of minimum mandatory capital with an amount of GEL250,000.

The Company is exposed through its operations to the following financial risks:

- Credit risk
- Liquidity risk
- Currency risk

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

	31.12.2017	31.12.2016	01.01.2016
Interest bearing financial assets	8,356,910	7,466,191	6,195,410
Cash and cash equivalents	2,181,322	888,668	978,081
Financial assets at fair value through profit and loss	5,037	-	-
Other assets	18,353	13,535	-
Total financial assets	**10,561,622**	**8,368,394**	**7,173,491**

	31.12.2017	31.12.2016	01.01.2016
Interest bearing financial liabilities	8,009,382	6,446,059	5,560,603
Other liabilities	49,786	31,524	4,625
Total financial liabilities	**8,059,168**	**6,477,583**	**5,565,228**

19. Risk management (Continued)

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers.

The company has developed credit risk management policies and procedures, which are designed to create credit committees. The Committee is obliged to analyze the information provided in the Loan Application, to assess credit risk assessment and bring it to their acceptable level. Credit policy is reviewed and approved by the Supervisory Board. The credit policy defines the procedures for review and approval of loan applications, assessment of borrower's ability to pay, valuation methodology of collateral, list of credit documentation, loan and other credit risk monitoring procedures. The Credit Committee is authorized to make a decision on financing the loan application. Loans submitted for approval to the Committee are based on the limits set by the credit policy. Loans above limits are submitted to the Supervisory Council for approval.

Monitoring procedures enables the Company to control customer‘s solvency on a periodic basis. Such procedures help the Company financial loss to be avoided in a timely manner. Regular monitoring of loans is carried out by the Monitoring Department.

Credit risk control is also partially implemented through collateral and personal guarantee.

The company creates an impairment allowance for loans issued, which represents the best estimates of future losses. The main part of the total allowance comes from general allowance that the Company creates by overdue analysis. A small portion of the allowance is presented as a specific allowance that is calculated by analyzing each significant customer.

For the analysis of collaterized loans and credit risks see the Note 12.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk arises when the maturity of assets and liabilities is different. The Company controls these types of risks according to the maturity analysis and determines the company's strategy for the future financial period. In order to manage liquidity risk, the Company regularly monitors future cash flows, which is the asset / liability management process.

The maturity analysis of financial liabilities of the Company listed below is based on the remaining contractual obligations.

An analysis of the financial liabilities as at 31 December 2017 is presented in the following table:

	Up to 1 year	1 year to 5 years	Total
Financial liabilities			
Interest bearing financial liabilities	7,473,146	536,236	**8,009,382**
Other liabilities	49,786	-	**49,786**
Total financial liabilities	**7,522,932**	**536,236**	**8,059,168**

An analysis of the financial liabilities as at 31 December 2016 is presented in the following table:

	Up to 1 year	1 year to 5 years	Total
Financial liabilities			
Interest bearing financial liabilities	4,538,673	1,907,386	**6,446,059**
Other liabilities	31,524	-	**31,524**
Total financial liabilities	**4,570,197**	**1,907,386**	**6,477,583**

19. Risk management (Continued)

An analysis of the financial liabilities as at 1st January 2016 is presented in the following table:

	Up to 1 year	1 year to 5 years	Total
Financial liabilities			
Interest bearing financial liabilities	1,880,409	3,680,194	**5,560,603**
Other liabilities	4,625	-	**4,625**
Total financial liabilities	**1,885,034**	**3,680,194**	**5,565,228**

The management of the Company believes that it has enough liquidity to meet current obligations.

Market Risk

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors.

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

Interest Rate Risk

The interest rate risk is the risk (with variable value) related to the interest-bearing assets – loans, because of the variable rate. In current period the Company does not have any loans with variable interest rate.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Company manages currency risk with the help of currency contracts (Note 14).

The Company's exposure to foreign currency exchange rate risk as at 31 December 2017 is presented in the table below:

	GEL	USD 1 = 2.5922 GEL	EUR 1 = 3.1044 GEL	GBP 1 = 3.5005 GEL	Other currencies	Total
Financial assets						
Interest bearing financial assets	4,886,742	3,470,168	-	-	-	**8,356,910**
Cash and cash equivalents	469,816	1,384,593	205,109	26,719	95,085	**2,181,322**
Financial assets at fair value through profit and loss	-	5,037	-	-	-	**5,037**
Other assets	18,353	-	-	-	-	**18,353**
Total financial assets	**5,374,911**	**4,859,798**	**205,109**	**26,719**	**95,085**	**10,561,622**
Financial liabilities						
Interest bearing financial liabilities	4,346,038	3,663,344	-	-	-	**8,009,382**
Other liabilities	49,786	-	-	-	-	**49,786**
Total financial liabilities	**4,395,824**	**3,663,344**	**-**	**-**	**-**	**8,059,168**
Open balance sheet position	**979,087**	**1,196,454**	**205,109**	**26,719**	**95,085**	

19. Risk management (Continued)

The Company's exposure to foreign currency exchange rate risk as at 31 December 2016 is presented in the table below:

	GEL	USD 1 = 2.6468 GEL	EUR 1 = 2.7940 GEL	GBP 1 = 3.2579 GEL	Other currencies	Total
Financial assets						
Interest bearing financial assets	1,134,657	6,331,534	-	-	-	**7,466,191**
Cash and cash equivalents	550,540	86,910	161,699	31,325	58,194	**888,668**
Other assets	13,535	-	-	-	-	**13,535**
Total financial assets	**1,698,732**	**6,418,444**	**161,699**	**31,325**	**58,194**	**8,368,394**
Financial liabilities						
Interest bearing financial liabilities	3,590,800	2,855,259	-	-	-	**6,446,059**
Other liabilities	31,524	-	-	-	-	**31,524**
Total financial liabilities	**3,622,324**	**2,855,259**	**-**	**-**	**-**	**6,477,583**
Open balance sheet position	**(1,923,592)**	**3,563,185**	**161,699**	**31,325**	**58,194**	

The Company's exposure to foreign currency exchange rate risk as at 1st Jnauary 2016 is presented in the table below:

	GEL	USD 1 = 2.3949 GEL	EUR 1 = 2.6169 GEL	GBP 1 = 3.5492 GEL	Other currencies	Total
Financial assets						
Interest bearing financial assets	24,293	6,171,117	-	-	-	**6,195,410**
Cash and cash equivalents	206,404	717,195	25,993	8,660	19,829	**978,081**
Total financial assets	**230,697**	**6,888,312**	**25,993**	**8,660**	**19,829**	**7,173,491**
Financial liabilities						
Interest bearing financial liabilities	1,419,854	4,095,777	44,972	-	-	**5,560,603**
Other liabilities	5,565,228	-	-	-	-	**5,565,228**
Total financial liabilities	**6,985,082**	**4,095,777**	**44,972**	**-**	**-**	**11,125,831**
Open balance sheet position	**(6,754,385)**	**2,792,535**	**(18,979)**	**8,660**	**19,829**	

Currency risk sensitivity

The following table details the Company's sensitivity to a 20% increase and decrease against the GEL. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 20% change in foreign currency rates.

19. Risk management (Continued)

Impact on net profit and equity based on asset values as at 31 December 2017 and 2016 and 1st January 2016:

	USD		EUR		GBP	
31.12.2017	**GEL/ USD 20%**	**GEL/ USD - 20%**	**GEL/ EUR 20%**	**GEL/ EUR - 20%**	**GEL/ GBP 20%**	**GEL/ GBP - 20%**
Profit/(loss)	239,291	(239,291)	41,022	(41,022)	5,344	(5,344)

	USD		EUR		GBP	
31.12.2016	**GEL/ USD 20%**	**GEL/ USD - 20%**	**GEL/ EUR 20%**	**GEL/ EUR - 20%**	**GEL/ GBP 20%**	**GEL/ GBP - 20%**
Profit/(loss)	712,637	(712,637)	32,340	(32,340)	6,265	(6,265)

	USD		EUR		GBP	
01.01.2016	**GEL/ USD 20%**	**GEL/ USD - 20%**	**GEL/ EUR 20%**	**GEL/ EUR - 20%**	**GEL/ GBP 20%**	**GEL/ GBP - 20%**
Profit/(loss)	558,507	(558,507)	(3,796)	3,796	1,732	(1,732)

20. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity.

A portfolio of financial assets and liabilities that are not traded in an active market is measured at the fair value using valuation technics. The selected measurement method uses observable market data, minimally based on non-market data and considers all the factors that market participants have taken into consideration when determining price. The best evidence of the fair value of a certain financial instrument at initial recognition is the price of the transaction - the fair value of the consideration paid or received. If a company decides that the fair value at initial recognition differs from the transaction price and the fair value is not supported by the quoted price on the active markets of the similar assets or liabilities, also, its value is not based on the measurement technics that uses only observable market data, in such cases the financial instruments are initially measured at fair value, adjusted for the difference between this value and the transaction price. Any difference between this value and the initial value obtained through the measurement method will be later recognized in profit or loss during the life of the instrument, but no later than the assessment is fully based on the observable market data or when the transaction is closed.

Fair value measurements are analysed by level in the fair value hierarchy as follows:

Level 1: are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This category includes intruments that are evaluated using the following data: quoted market prices at active markets for similar financial instruments; Quoted prices for similar instruments that are less active; Or other methods of evaluation, within which all the important data is directly or indirectly observable, due to market data;

Level 3: measurements are valuations not based on solely observable market data. This category includes all the intruments within which the evaluation methods are not based on the observable data and unobservable inputs have a significant impact on the valuation of the instrument. This category includes instruments that are evaluated based on quoted prices for similar instruments within which significant adjustments or assumptions are required to reflect differences between instruments.

a) Financial intruments at fair value through profit and loss

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31.12.2017			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss	-	5,037	-	**5,037**

As of 31 December and January 1, 2016, the Company did not own the Financial assets at fair value through profit and loss.

Valuation technique and Inputs used for level 2 fair value measurements include following:

Valuation technique: Discounted cash flows (“DCF”), forward pricing using present value calculations.

Inputs used: Government bonds yield, official exchange rate, risk-free rate.

20. Fair value measurement (Continued)

b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy for the assets not measured at fair value are as follows:

	31.12.2017			31.12.2016			01.01.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets									
Cash and cash equivalents	2,181,322	-	-	888,668	-	-	978,081	-	-
Loans to customers	-	-	8,356,910	-	-	7,466,191	-	-	6,195,410
Other financial assets	-	-	18,353	-	-	13,535	-	-	-
Total financial assets	**2,181,322**	**-**	**8,375,263**	**888,668**	**-**	**7,479,726**	**978,081**	**-**	**6,195,410**
Financial liabilities									
Borrowed funds from banks	-	5,177,910	-	-	3,590,800	-	-	4,247,529	-
Borrowed funds from individuals and legal entities	-	-	2,831,472	-	-	2,855,259	-	-	1,313,074
Other financial liabilities	-	-	49,786	-	-	31,524	-	-	4,625
Total Financial liabilities	**-**	**5,177,910**	**2,881,258**	**-**	**3,590,800**	**2,886,783**	**-**	**4,247,529**	**1,317,699**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was estimated 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. Amounts due to credit institutions were discounted at the Company's own incremental borrowing rate.

There were no changes in valuation technique for level 2 and level 3 measurements of assets and liabilities not measured at fair values during the year ended 31 December 2017 and 2016.

21. Transactions with related parties

Related parties or transactions with related parties, as defined by IAS 24 'Related party disclosures', represent:

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

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

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Included in the statement of comprehensive income for the year ended December 31, 2017 are the following amounts which were recognized in transactions with related parties:

Financial statement caption	Shareholder	Key management	Other related party	Financial statement caption
Interest expense	(104,111)	(105,743)	(7,874)	**(980,982)**
Employee benefit expenses	(24,120)	-	-	**(536,958)**

Included in the statement of comprehensive income for the year ended December 31, 2016 are the following amounts which were recognized in transactions with related parties:

Financial statement caption	Shareholder	Key management	Other related party	Financial statement caption
Interest expense	-	(86,842)	-	**(615,144)**
Employee benefit expenses	(26,520)	-	-	**(321,313)**

Included in the Statement of financial position as at December 31, 2017 are the following amounts which were recognized in transactions with related parties:

Financial statement caption	Shareholder	Key management	Other related party	Financial statement caption
Borrowed funds	498,476	1,036,880	90,209	**8,009,382**

Included in the Statement of financial position as at December 31, 2016 are the following amounts which were recognized in transactions with related parties:

Financial statement caption	Shareholder	Key management	Other related party	Financial statement caption
Borrowed funds	-	899,118	-	**6,446,059**

Included in the Statement of financial position as at 1st January, 2016 are the following amounts which were recognized in transactions with related parties:

Financial statement caption	Shareholder	Key management	Other related party	Financial statement caption
Borrowed funds	-	475,268	-	**5,560,603**

22. Changes in the comparative information

The following changes were made in the financial statements prepared as at 31 December 2016:

Financial statement caption	Amount before restatement	adjustment	Reclassification	Amount after restatement	Description
Statement of financial position					
Assets					
Fixed assets	1,420,949		6,303	1,427,252	Intangible assets are presented under FS caption “Fixed assets”.
Other assets	41,916		(6,303)	35,613	
Tax assets	8,355		(4,269)	4,086	Presentation of tax assets and liabilities on a net bases due to the amendment to the tax legislation of Georgia.
Liabilities					
Other liabilities	35,793		(4,269)	31,524	Presentation of tax assets and liabilities on a net bases due to the amendment to the tax legislation of Georgia.
Statement of comprehensive income					
Interest income	1,870,377	(352,407)	-	1,517,970	Income from penalties were presented under FS caption “Other income”.
Other income	6,825	938,832	-	945,657	Income from penalties and gain from currency trading were presented under FS caption “Other income”.
Other expenses	(582,876)	(18,160)	406,309	(194,727)	Employee benefit expenses and depreciation and amortization were separately disclosed.
Employee benefit expenses	-	-	(321,313)	(321,313)	Employee benefit expenses were separately disclosed.
Foreign exchange gain	693,002	(568,264)	-	124,738	Gain from currency trading was presented under FS caption “Other income”.
Depreciation and Amortization	-	-	(84,996)	(84,996)	Depreciation and amortization were separately disclosed.

22. Changes in comparative information (Continued)

Financial statement caption	Amount before restatement	adjustment	Reclassification	Amount after restatement	Description
Statement of cash flows					
Depreciation and amortization	83,907	1,089	-	84,996	Amortization of intangible assets is presented under FS caption “Depreciation and Amortization “
Interest income	(1,870,377)	352,407	-	(1,517,970)	Income from penalties were presented under FS caption “Other income”.
Other expenses	(41,232)	(1,089)	-	(42,321)	Amortization of intangible assets is presented under FS caption “Depreciation and Amortization “
Interest received	1,822,767	(352,407)	-	1,470,360	Income from penalties were presented under FS caption “Other income”.

The following changes were made in the financial statements prepared as at 1st January 2016:

Financial statement caption	Amount before restatement	adjustment	Reclassification	Amount after restatement	Description
Statement of financial position					
Assets					
Fixed assets	804,608	-	447	805,055	Intangible assets are presented under FS caption “Fixed assets”.
Other assets	682	-	(447)	235	

23. Commitments and contingencies

Legal proceedings - As at 31 December 2017, 2016 and 1st January 2016 the Company was not engaged in any material 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 Company may be assessed additional taxes, penalties and interest. The Company 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 three years.

Amendments to the legislation - On December 23, 2017, the President of Georgia signed a Law about Microfinance Organizations which resulted in the following amendments:

- The microcredit issued by the microfinance organization to the individual borrower shall not exceed GEL100,000 (GEL50,000 was restricted until the amendment);
- The authorized capital of the Microfinance Organization shall not be less than GEL1,000,000 for the registration date (GEL250,000 was restricted until the amendment). Authorized capital for existing microfinance organizations shall be filled by July 1, 2019, with the following scheme:
    - - not less than GEL500,000 by September 1, 2018;
    - - not less than GEL1,000,000 by July 1, 2019.

Authorized capital should be filled only with cash contributions.

Operating 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. Laws and regulations affecting businesses in Georgia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. 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.

24. Post balance sheet events

There have been no subsequent events that need to be disclosed in the financial statements.