

**Microfinance Organization Giro Credit LLC**

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
FOR  
THE YEAR ENDED 31 DECEMBER 2016

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These financial statements are presented in GEL.

Decimal symbol is dot (“.”) and digit-grouping symbol is comma (“,”)

## **STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

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 ii, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Microfinance Organization Giro Credit LLC (hereinafter - the “MFO”).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the MFO at 31 December 2016 and the results of its operations, cash flows, and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (“IFRS”).

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and policies and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS 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;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the MFO operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the MFO; and
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31 December 2016 were approved on behalf of the management on 03 August 2017 by:

Director Giorgi Gugumberidze \_\_\_\_\_

Accountant Mariana Mkhitaryani \_\_\_\_\_

**INDEPENDENT AUDITOR'S REPORT  
TO THE OWNERS OF MFO GIRO CREDIT LLC**

**Opinion**

We have audited the financial statements of Microfinance Organization Giro Credit LLC (the MFO first time adopter of IFRS) which comprise the statement of financial position as at December 31, 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the MFO as at December 31, 2016, 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 MFO in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of Management 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 MFO'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 MFO or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the MFO'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 MFO'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 MFO'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 MFO to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

**3 August 2017**

**RSM Georgia**

**MFO GIRO CREDIT LLC****FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016***In Georgian Lari***STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016	2015
Interest income	5	1,870,377	1,707,868
Interest expense	5	(615,144)	(563,062)
<b>Net interest income</b>		<b>1,255,233</b>	<b>1,144,806</b>
Provision for loan impairment	10	(113,580)	(128,808)
<b>Net interest income after provision for loan impairment</b>		<b>1,141,653</b>	<b>1,015,998</b>
Operating expenses	6	(582,876)	(423,498)
Other operating income		6,825	1,142
Net foreign exchange translation gain/(loss)	7	693,002	618,178
<b>Profit before tax</b>		<b>1,258,604</b>	<b>1,211,820</b>
Income tax (expense)/benefit	8	(107,830)	(201,347)
<b>Profit for the year</b>		<b>1,150,774</b>	<b>1,010,473</b>
<b>Other comprehensive income for the year</b>		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>1,150,774</b>	<b>1,010,473</b>

Director Giorgi Gugumberidze \_\_\_\_\_Accountant Mariana Mkhitaryani \_\_\_\_\_

**MFO GIRO CREDIT LLC****FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016***In Georgian Lari***STATEMENT OF FINANCIAL POSITION  
AT 31 DECEMBER 2016**

	Note	31-Dec-16	31-Dec-15	01-Jan-15
<b>Assets</b>				
Property and equipment	9	1,420,949	804,608	737,697
Loans to customers	10	7,466,192	6,195,410	3,945,824
Current income tax asset		8,355	-	-
Other assets		41,917	685	1,323
Cash and cash equivalents	11	888,668	978,081	336,861
<b>Total assets</b>		<b>9,826,081</b>	<b>7,978,784</b>	<b>5,021,705</b>
<b>Equity</b>				
Owner's capital	12	251,083	251,083	251,083
Retained earnings		3,072,802	1,922,028	1,089,883
<b>Total equity</b>		<b>3,323,885</b>	<b>2,173,111</b>	<b>1,340,966</b>
<b>Liabilities</b>				
Borrowings	13	6,446,059	5,560,603	3,537,116
Deferred tax liability	14	20,344	107,681	109,847
Other liabilities	15	35,793	4,625	13,322
Current income tax liability		-	132,764	20,454
<b>Total liabilities</b>		<b>6,502,196</b>	<b>5,805,673</b>	<b>3,680,739</b>
<b>Total equity and liabilities</b>		<b>9,826,081</b>	<b>7,978,784</b>	<b>5,021,705</b>

Director

Giorgi Gugumberidze \_\_\_\_\_

Accountant

Mariana Mkhitaryani \_\_\_\_\_

**MFO GIRO CREDIT LLC****FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016***In Georgian Lari***STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	Owner's capital	Retained earnings	Total equity
<b>Balance at 01 January 2015 (as previously reported)</b>	20	<b>251,083</b>	<b>1,089,883</b>	<b>1,340,966</b>
Adjustments		-	-	-
<b>Balance at 01 January 2015</b>		<b>251,083</b>	<b>1,089,883</b>	<b>1,340,966</b>
Profit for the year		-	1,010,473	1,010,473
Other comprehensive income for the year		-	-	-
<b>Total Comprehensive income for the year</b>		-	<b>1,010,473</b>	<b>1,010,473</b>
<b>Dividend paid - Final for 2014</b>		-	<b>(178,328)</b>	<b>(178,328)</b>
<b>Balance at 31 December 2015</b>		<b>251,083</b>	<b>1,922,028</b>	<b>2,173,111</b>
Profit for the year		-	1,150,774	1,150,774
Other comprehensive income for the year		-	-	-
<b>Total Comprehensive income for the year</b>		-	<b>1,150,774</b>	<b>1,150,774</b>
<b>Dividend paid - Final for 2015</b>		-	-	-
<b>Balance at 31 December 2016</b>		<b>251,083</b>	<b>3,072,802</b>	<b>3,323,885</b>

Director

Giorgi Gugumberidze \_\_\_\_\_

Accountant

Mariana Mkhitaryani \_\_\_\_\_



**MFO GIRO CREDIT LLC****FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016***In Georgian Lari***STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 31 DECEMBER 2016**

	Notes	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before income tax		1,258,604	1,211,820
Adjustments for:			
Provisions for loan losses	10	113,580	128,808
Loss/(Gain) on sale of property and equipment	9	(3,945)	86
Depreciation expense	9	83,907	37,418
Translation (gain)/loss on foreign exchange operations	7	(124,738)	(210,821)
Interest expense	5	615,144	563,062
Interest income	5	(1,870,377)	(1,707,868)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>72,175</b>	<b>22,505</b>
Changes in operating assets and liabilities <i>(Increase)/decrease in operating assets:</i>			
Loans to customers	10	(774,470)	(1,183,804)
Other assets		(41,232)	638
<i>Increase/(decrease) in operating liabilities:</i>			
Other liabilities	15	31,168	(8,697)
<b>Cash flows from operating activities before taxation</b>		<b>(712,359)</b>	<b>(1,169,358)</b>
Income tax paid	8	(336,286)	(91,203)
Interest received	10	1,822,767	1,688,277
Interest paid	13	(595,700)	(563,062)
<b>Net cash flows from operating activities</b>		<b>178,422</b>	<b>(135,346)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	9	(717,343)	(104,708)
Proceeds from sale of property and equipment	9	21,040	293
<b>Net cash flows from investing activities</b>		<b>(696,303)</b>	<b>(104,415)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from borrowings	13	366,180	986,372
Dividends paid		-	(178,328)
<b>Net cash flows from financing activities</b>		<b>366,180</b>	<b>808,044</b>



## **MFO GIRO CREDIT LLC**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

*In Georgian Lari*

## **1 Introduction**

Microfinance Organization Giro Credit LLC (“MFO”) is a limited liability company incorporated and domiciled in Georgia. The MFO was founded on October 21, 2010 and received the registration of the Microfinance Organization under the procedures defined by the National Bank of Georgia on December 20, 2011.

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

By the end of the reporting year the MFO had 32 employees (2015: 24).

**Principal activity.** The main operation of the MFO is issuing micro loans (up to GEL 50,000 per borrower) collateralized by motor vehicles, precious metals, real estate, computer and other equipment and non-collateralized loans.

**Registered address and place of business.** The MFO’s registered address is 3, Gamsakhurdia Av, Tbilisi, Georgia.

**Presentation currency.** These financial statements are presented in Georgian Lari (“GEL”). The GEL is the official currency of Georgia.

At 31 December 2016, the principal rate of exchange used for translating foreign currency monetary balances was USD 1 = GEL 2.6468 (2015: USD 1=GEL2.3949; 2014: USD 1 = GEL1.8636) and EUR= GEL 2.7940 (2015: EUR 1=GEL 2.6169; 2014: EUR 1= GEL 2.2656)

## **2 Operating Environment of the MFO**

The MFO’s principal business activities are within Georgia. Georgia continues to display certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Georgia.

The future economic direction of Georgia is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. Management believes it is taking all the necessary measures to support the sustainability and development of the MFO’s business.

Management believes it is taking all the necessary measures to support the sustainability and development of the MFO’s business in the current circumstances.

## **3 Summaries of Significant Accounting Policies**

### **BASIS OF PREPARATION**

These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (“IFRS”), being standards and interpretations issued by the International Accounting Standards Board (“IASB”), in force at 31 December 2016. . For the year ended 31 December 2015, the MFO prepared its financial statements in accordance with International Financial Reporting Standards for Small and Medium Size Entities (“IFRS for SMEs”), which are based on the IFRS financial reporting framework but do not contain certain significant accounting matters and disclosure requirements. These financial statements, for the year ended 31 December 2016, are for the first time the MFO has prepared the full set of financial statements in accordance with IFRS.

Accordingly, the MFO has prepared financial statements which comply with IFRS applicable for periods beginning on or after 1 January 2016 as described herein. In preparing these financial statements, the MFO’s opening statement of financial position was prepared as at 1 January 2015, the MFO’s date of transition to IFRS. Note 20 explains principal adjustments made by the MFO in restating its IFRS for SMEs statement of financial position as at 1 January 2015.

## **MFO GIRO CREDIT LLC**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

*In Georgian Lari*

The financial statements comprise a statement of profit or loss and other comprehensive income, a statement of financial position, a statement of changes in equity, a statement of cash flows, and notes. Income and expenses, excluding the components of other comprehensive income, are recognised in the statement of profit or loss. Other comprehensive income is recognised in the statement of comprehensive income and comprises items of income and expenses (including reclassification adjustments) that are not recognised in the statement of profit or loss, as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods. Transactions with the owners of the MFO in their capacity as owners are recognised in the statement of changes in equity.

The MFO presents the statement of profit or loss and other comprehensive income using the classification by function of expenses. The MFO believes this method provides more useful information to the readers of the financial statements as it better reflects the way operations are run from a business point of view.

***Financial instruments - key measurement terms.*** Depending on their classification financial instruments are carried at fair value, or amortized cost as described below.

*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 the price in an active market. An active market is one in which transactions for the asset or the liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The 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 owned by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure the fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two 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), and (iii) level three measurements are valuations not solely based on observable market data (that is, the measurement requires significant unobservable inputs).

*Cost* is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortized cost* is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at

## **MFO GIRO CREDIT LLC**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

*In Georgian Lari*

origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest reprising date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

**Initial recognition of financial instruments.** Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the MFO commits to deliver a financial asset. All other purchases are recognized when the entity becomes a party to the contractual provisions of the instrument.

**Cash and cash equivalents.** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

**Loans and advances to customers.** Loans and advances to customers are recorded when the MFO advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortized cost.

**Impairment of financial assets carried at amortized cost.** Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the MFO determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the MFO considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- Any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- The borrower experiences a significant financial difficulty as evidenced by the borrower’s financial information that the MFO obtains;
- The borrower considers bankruptcy or a financial reorganization;

## **MFO GIRO CREDIT LLC**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

*In Georgian Lari*

- There is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- The value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortized cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognized through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

***Derecognition of financial assets.*** The MFO derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the MFO 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.

***Property and equipment.*** Property and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

The costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of premises and equipment items are capitalized and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of property and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

## **MFO GIRO CREDIT LLC**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

*In Georgian Lari*

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

If impaired, property and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized as profit or loss from disposal of fixed assets.

**Depreciation.** Depreciation on items of property and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Office space	50 years;
Office equipment	7 years;
Motor Vehicles	7 years;
Leasehold improvements	5 years.

The residual value of an asset is the estimated amount that the MFO would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the MFO expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

**Intangible assets.** All of the MFO's intangible assets have definite useful life and primarily include capitalized computer software.

Acquired computer software licenses are capitalized based on the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the MFO are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalized costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalized computer software is amortized on a straight line basis over expected useful lives of 7-10 years.

**Operating leases.** Where the MFO is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the MFO, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

**Borrowings.** Borrowings are carried at amortised cost using the effective interest method.

**Income taxes.** Income taxes have been provided for in the financial statements in accordance with Georgian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognized in the statement of comprehensive income except if it is recognized directly in the statement of other comprehensive income because it relates to transactions that are also recognized, in the same or a different period, directly in the statement of other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits for the current and prior periods. Taxable profits are based on estimates if financial statements are

## **MFO GIRO CREDIT LLC**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

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authorized prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available, against which the deductions can be utilized.

***Uncertain tax positions.*** The MFO's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

***Dividends.*** Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorized for issue are disclosed in the subsequent events note.

***Income and expense recognition.*** Interest income and expense are recorded in the statement of profit or loss and other comprehensive income for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

***Owner's capital.*** Owner's capital is determined by the decision of the MFO's founder.

***Foreign currency translation.*** The MFO's functional and presentation currency is the national currency of Georgia, Georgian Lari ("GEL"). Monetary assets and liabilities are translated into entity's functional currency at the official exchange rate of the NBG at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the MFO's functional currency at year-end official exchange rates of the NBG are recognized in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2016, the principal rate of exchange used for translating foreign currency monetary balances was USD 1 = GEL 2.6468 (2015: USD 1=GEL2.3949; 2014: USD 1 = GEL1.8636) and EUR= GEL 2.7940 (2015: EUR 1=GEL 2.6169; 2014: EUR 1= GEL 2.2656)



**Offsetting.** Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

## **4 Application of New or Revised Standards and Pronouncements**

### **Application of new and amended standards**

For the preparation of these financial statements, the following new or amended standards are mandatory for the first time for the financial year beginning 1 January 2016

- Amendments to IAS 1 titled Disclosure Initiative (issued in December 2014) – The amendments, applicable to annual periods beginning on or after 1 January 2016, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments had no material effect on the MFO’s financial statements.
- Amendments to IAS 16 and IAS 38 titled Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014) – The amendments, prospectively effective for annual periods beginning on or after 1 January 2016, add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances. The amendments had no effect on the MFO’s financial statements.
- Amendments to IAS 16 and IAS 41 titled Agriculture: Bearer Plants (issued in June 2014) – The amendments, applicable to annual periods beginning on or after 1 January 2016, define bearer plants – ie living plants which are used solely to grow produce over several periods and usually scrapped at the end of their productive lives - and include them within IAS 16’s scope while the produce growing on bearer plants remains within the scope of IAS 41. As the MFO does not undertake agricultural activity, this amendment had no effect on the MFO’s financial statements.
- Amendment to IAS 19 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014) - The amendment, applicable to annual periods beginning on or after 1 January 2016, clarifies that, in determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. Thus, the assessment of whether there is a deep market in high quality corporate bonds is based on corporate bonds in that currency (not corporate bonds in a particular country), and in the absence of a deep market in high quality corporate bonds in that currency, government bonds in the relevant currency should be used. This amendment had no effect on the MFO’s financial statements.
- Amendments to IAS 27 titled Equity Method in Separate Financial Statements (issued in August 2014) – The amendments, applicable to annual periods beginning on or after 1 January 2016, reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. This amendment has no effect on consolidated financial statements.

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- Amendment to IFRS 5 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014) - The amendment, applicable prospectively to annual periods beginning on or after 1 January 2016, adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued. This amendment had no effect on the MFO's financial statements.
- Amendment to IFRS 7 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014) - The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset. The amendment had no effect on the MFO's financial statements.
- Amendments to IFRS 10, IFRS 12 and IAS 28 titled Investment Entities: Applying the Consolidation Exception (issued in December 2014) – The amendments, applicable to annual periods beginning on or after 1 January 2016, clarify the application of the consolidation exception for investment entities and their subsidiaries. The amendments had no effect on the MFO's financial statements.
- Amendments to IFRS 11 titled Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014) – The amendments, applicable prospectively to annual periods beginning on or after 1 January 2016, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosure in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). This amendment had no effect on the MFO's financial statements. ei separate financial statements. This amendment has no effect on financial statements.

#### **New and amended standards in issue but not yet effective**

The MFO has not applied the following new or amended standards that have been issued by the IASB but are not yet effective for the financial year beginning 1 January 2016:

- Amendments to IAS 7 titled Disclosure Initiative (issued in January 2016) – The amendments, applicable to annual periods beginning on or after 1 January 2017, require entities to provide information that enable users of financial statements to evaluate changes in liabilities arising from their financing activities. This is not expected to have a material effect on the MFO's financial statements.
- Amendments to IAS 12 titled Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016) – The amendments, applicable to annual periods beginning on or after 1 January 2017, clarify the accounting for deferred tax assets related to unrealised losses on debt instruments measured at fair value, to address diversity in practice. This is not expected to have an effect on the MFO's financial statements.
- Amendments to IFRS 2 titled Classification and Measurement of Share-based Payment Transactions (issued in June 2016) - The amendments, applicable to annual periods beginning on or after 1 January 2018, clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments (SBP), the accounting for SBP transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and conditions of a SBP that changes the classification of the transaction from cash-settled to equity-settled. The amendments are not expected to have a material effect on the MFO's financial statements.

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- Amendments to IFRS 4 titled Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued in September 2016) - The amendments give all entities that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before implementing the replacement insurance contracts Standard for IFRS 4 that is under drafting by the Board. Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption from applying IFRS 9 (until 2021), thus continuing to apply IAS 39 instead. As the MFO has not issued insurance contracts, the amendments are not expected to have an effect on its financial statements.
- IFRS 9 *Financial Instruments (issued in July 2014)* – This standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.
  - IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.
  - For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.
  - For the impairment of financial assets, IFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised.
  - For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.
  - The derecognition provisions are carried over almost unchanged from IAS 39.

The Directors anticipate that IFRS 9 will be adopted in the MFO’s financial statements when it becomes mandatory and that the application of the new standard might have a significant effect on amounts reported in respect of the MFO’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

- Amendments to IFRS 10 and IAS 28 titled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014) – The amendments address a current conflict between the two standards and clarify that gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after 1 January 2016, is now deferred indefinitely but earlier application is still permitted. This is not expected to have an effect on the MFO’s financial statements.
- IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and amended for clarifications in April 2016) - The new standard, effective for annual periods beginning on or after 1 January 2018, replaces IAS 11, IAS 18 and their interpretations. It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (eg the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract, etc.). This is not expected to have a significant effect on the MFO’s financial statements.

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- IFRS 16 Leases (issued in January 2016) - The new standard, effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 and its interpretations. The biggest change introduced is that almost all leases will be brought onto lessees' balance sheets under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. The Directors anticipate that IFRS 16 will be adopted in the MFO's financial statements when it becomes mandatory and that the application of the new standard will have a significant effect on amounts reported in respect of the MFO's leases. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

**5 Interest Income and Expenses**

	<b>2016</b>	<b>2015</b>
<b>Interest income</b>		
Interest income from loans collateralized by motor vehicles	330,927	399,335
Interest income from loans secured by precious metals	993,334	884,299
Interest income from loans secured by computer and other equipment	-	4,663
Interest income from loans secured by real estate	511,340	419,571
Interest income from loans without collateral	34,776	-
<b>Total interest income</b>	<b>1,870,377</b>	<b>1,707,868</b>
<b>Interest expense</b>		
Interest expense on loans from banks	(392,367)	(404,465)
Interest expense on loans from individuals	(221,851)	(158,597)
Interest expense on loans from legal entities	(926)	-
<b>Total interest expense</b>	<b>(615,144)</b>	<b>(563,062)</b>
<b>Net interest income</b>	<b>1,255,233</b>	<b>1,144,806</b>

In the year ended 31 December 2016 the interest accrued on impaired loans amounted to GEL 352,408 (2015: GEL 347,893).

Interest received in 2016 amounted GEL 1,822,767 (2015: GEL 1,688,277).

**6 Operating expenses**

	<b>2016</b>	<b>2015</b>
Staff costs	(320,729)	(254,172)
Depreciation and amortization	(84,996)	(37,562)
Stationary expenses	(40,579)	(28,481)
Taxes other than income tax	(21,045)	(21,017)
Professional services	(24,100)	(15,300)
Office rent	(18,513)	(13,794)
Utilities	(13,782)	(12,055)
Communication	(15,412)	(12,016)
Marketing	(8,744)	(4,948)
Other operating expenses	(34,976)	(24,153)
<b>Total operating expenses</b>	<b>(582,876)</b>	<b>(423,498)</b>

**MFO GIRO CREDIT LLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016***In Georgian Lari***7 Net foreign exchange translation gain**

	<b>2016</b>	<b>2015</b>
Foreign exchange translation gain	6,611,038	2,094,955
Foreign exchange translation loss	(6,486,300)	(1,884,134)
Net gain from currency trading	568,264	407,357
<b>Net foreign exchange translation gain</b>	<b>693,002</b>	<b>618,178</b>

**8 Income Tax**

	<b>2016</b>	<b>2015</b>
Current income tax	(195,167)	(203,513)
Deferred income tax (expense)/benefit (note 14)	87,337	2,166
<b>Total income tax</b>	<b>(107,830)</b>	<b>(201,347)</b>

Income tax of GEL 336,286 was paid in 2016 (2015: GEL 91,203).

Income tax is calculated at 15 % of the estimated assessable profit for the year.

<i>Income tax reconciliation</i>	<b>2016</b>	<b>2015</b>
Profit before tax	1,258,604	1,211,820
Income tax 15%	188,791	181,773
<i>Adjustments:</i>		
Permanent difference	(101,305)	(88,107)
Temporary difference	20,344	107,681
<b>Income tax charge for the year</b>	<b>(107,830)</b>	<b>201,347</b>
Effective tax rate	9%	17%

On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia effective from 1 January 2017 or 1 January 2019, for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops. The new code impacts the recognition and measurement principles of the MFO's income tax and it also affects the MFO's deferred income tax assets/liabilities. Companies do not have to pay income tax on their profit before tax (earned since 1 January 2017 or 1 January 2019 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops) until that profit is distributed in a form of dividend or other forms of profit distributions. Once dividend is paid, 15% income tax is payable at the moment of the dividend payment, regardless of whether in monetary or non-monetary form, to the foreign non-resident legal entities and foreign and domestic individuals. The dividends paid out to the resident legal entities are tax exempted. Apart from dividends' distribution, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of goods/services and/or transfer of funds and representation costs that exceed the maximum amount determined by the Income Tax Code of Georgia, in the same month they are incurred.

As of 31 December 2016, deferred tax assets/liabilities are re-measured to the amount that is estimated to be utilized in the period from 1 January 2017 to 31 December 2018.

**MFO GIRO CREDIT LLC**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**
*In Georgian Lari*
**9 Property and equipment**

	Office space	Office equipment	Vehicles	Leasehold improvement	Construction in progress	Total
<b>Net book amount at 1 January 2014</b>	<b>292,044</b>	<b>61,625</b>	-	-	-	<b>353,669</b>
Additions	316,385	78,199	23,933	-	-	<b>418,517</b>
Transfers	-	-	-	-	-	-
Disposals/Sales	-	-	-	-	-	-
Depreciation charge	(12,703)	(18,367)	(3,419)	-	-	<b>(34,489)</b>
Depreciation eliminated on disposal	-	-	-	-	-	-
<b>Net book amount at 31 December 2014</b>	<b>595,726</b>	<b>121,457</b>	<b>20,514</b>	-	-	<b>737,697</b>
Cost at 31 December 2014	614,808	148,332	23,933	-	-	787,073
Accumulated depreciation	(19,082)	(26,875)	(3,419)	-	-	(49,376)
<b>Net book amount at 1 January 2015</b>	<b>595,726</b>	<b>121,457</b>	<b>20,514</b>	-	-	<b>737,697</b>
Additions	-	17,540	-	2,884	84,284	<b>104,708</b>
Transfers	(3,510)	3,510	-	-	-	-
Disposals/Sales	-	(1,050)	-	-	-	<b>(1,050)</b>
Depreciation charge	(12,703)	(20,719)	(3,419)	(577)	-	<b>(37,418)</b>
Depreciation eliminated on disposal	-	671	-	-	-	<b>671</b>
<b>Net book amount at 31 December 2015</b>	<b>579,513</b>	<b>121,409</b>	<b>17,095</b>	<b>2,307</b>	<b>84,284</b>	<b>804,608</b>
Cost at 31 December 2015	611,298	168,332	23,933	2,884	84,284	890,731
Accumulated depreciation	(31,785)	(46,923)	(6,838)	(577)	-	(86,123)
<b>Net book amount at 1 January 2016</b>	<b>579,513</b>	<b>121,409</b>	<b>17,095</b>	<b>2,307</b>	<b>84,284</b>	<b>804,608</b>
Additions	445,014	125,569	145,915	845	-	<b>717,343</b>
Transfers	84,284	-	-	-	(84,284)	-
Disposals/Sales	-	-	(23,933)	-	-	<b>(23,933)</b>
Depreciation charge	(23,293)	(39,023)	(20,845)	(746)	-	<b>(83,907)</b>
Depreciation eliminated on disposal	-	-	6,838	-	-	<b>6,838</b>
<b>Net book amount at 31 December 2016</b>	<b>1,085,518</b>	<b>207,955</b>	<b>125,070</b>	<b>2,406</b>	-	<b>1,420,949</b>
Cost at 31 December 2016	1,140,596	293,901	145,915	3,729	-	1,584,141
Accumulated depreciation	(55,078)	(85,946)	(20,845)	(1,323)	-	(163,192)
<b>Net book amount at 31 December 2016</b>	<b>1,085,518</b>	<b>207,955</b>	<b>125,070</b>	<b>2,406</b>	-	<b>1,420,949</b>

Following office spaces (where MFO's branches are located) are being pledged under the bank loans (See note 13):

34.82 sq.m. space on Kazbegi Av.19, Tbilisi, Georgia with cost of GEL 316,155 and carrying amount of GEL 297,186.

59.77 sq.m. space on Pekini St.3, Tbilisi, Georgia with cost of GEL 295,143 and carrying amount of GEL 269,620.

314.95 sq.m space on Dadiani Av.193/195/197, Tbilisi, Georgia with cost of GEL 529,298 and carrying amount of GEL 518,712.

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**10 Loans to Customers**

	<b>31-Dec-16</b>	<b>31-Dec-15</b>	<b>01-Jan-15</b>
Loans to individuals - loans collateralized by precious metals	4,739,944	4,313,252	2,823,030
Loans to individuals - loans collateralized by real estate	1,941,587	1,623,339	844,071
Loans to individuals - loans collateralized by motor vehicles	533,941	543,459	527,855
Loans to individuals - loans collateralized by computer and other equipment	2,998	1,696	65,236
Loans to individuals - loans without collateral	543,771	-	-
Less: Provision for loan impairment	(296,049)	(286,336)	(314,368)
<b>Total loans and advances to customers</b>	<b>7,466,192</b>	<b>6,195,410</b>	<b>3,945,824</b>

The economic sector risk concentrations within the customer loan portfolio are as follows:

	<b>31-Dec-16</b>		<b>31-Dec-15</b>		<b>01-Jan-15</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Individuals</b>						
Loans collateralized by precious metals	4,739,944	61%	4,313,252	67%	2,823,030	66%
Loans collateralized by real estate	1,941,587	25%	1,623,339	25%	844,071	20%
Loans collateralized by motor vehicles	533,941	7%	543,459	8%	527,855	12%
Loans collateralized by computer and other equipment	2,998	0%	1,696	0%	65,236	2%
Loans without collateral	543,771	7%	-	0%	-	0%
<b>Total individuals</b>	<b>7,762,241</b>	<b>100%</b>	<b>6,481,746</b>	<b>100%</b>	<b>4,260,192</b>	<b>100%</b>
<b>Total loans and advances to customers (before impairment)</b>	<b>7,762,241</b>	<b>100%</b>	<b>6,481,746</b>	<b>100%</b>	<b>4,260,192</b>	<b>100%</b>



**MFO GIRO CREDIT LLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016***In Georgian Lari*

The movement in the provision for loan impairment during 2016 is as follows:

	Loans collateralized by precious metals	Loans collateralized by real estate	Loans collateralized by motor vehicles	Loans collateralized by computer and equipment	Loans without collateral	Total
<b>Provision for loan impairment at 01/01/2016</b>	(247,635)	(8,331)	(28,674)	(1,696)	-	(286,336)
Written off during the year	96,547	-	7,320	-	-	103,867
Provision and recovery for loan impairment during the year	(31,353)	(63,344)	(6,226)	(1,302)	(11,355)	(113,580)
<b>Provision for loan impairment at 31/12/2016</b>	<b>(182,441)</b>	<b>(71,675)</b>	<b>(27,580)</b>	<b>(2,998)</b>	<b>(11,355)</b>	<b>(296,049)</b>

The movement in the provision for loan impairment during 2015 is as follows:

	Loans collateralized by precious metals	Loans collateralized by real estate	Loans collateralized by motor vehicles	Loans collateralized by computer and equipment	Loans without collateral	Total
<b>Provision for loan impairment at 01/01/2015</b>	(195,804)	(53,870)	(32,212)	(32,482)	-	<b>(314,368)</b>
Written off during the year	125,537	634	9,969	20,700	-	<b>156,840</b>
Provision and recovery for loan impairment during the year	(177,368)	44,905	(6,431)	10,086	-	<b>(128,808)</b>
<b>Provision for loan impairment at 31/12/2015</b>	<b>(247,635)</b>	<b>(8,331)</b>	<b>(28,674)</b>	<b>(1,696)</b>	-	<b>(286,336)</b>

**MFO GIRO CREDIT LLC**

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The movement in the provision for loan impairment during 2014 is as follows:

	<b>Loans collateralized by precious metals</b>	<b>Loans collateralized by real estate</b>	<b>Loans collateralized by motor vehicles</b>	<b>Loans collateralized by computer and equipment</b>	<b>Loans without collateral</b>	<b>Total</b>
<b>Provision for loan impairment at 01/01/2014</b>	(137,428)	(25,902)	(9,456)	(26,943)	-	<b>(199,729)</b>
Written off during the year	39,085	-	3,734	13,008	-	<b>55,827</b>
Provision and recovery for loan impairment during the year	(97,461)	(27,968)	(26,490)	(18,547)	-	<b>(170,466)</b>
<b>Provision for loan impairment at 01/01/2015</b>	<b>(195,804)</b>	<b>(53,870)</b>	<b>(32,212)</b>	<b>(32,482)</b>	-	<b>(314,368)</b>

Information about collateral at 31 December 2016 is as follows:

	<b>Loans collateralized by precious metals</b>	<b>Loans collateralized by real estate</b>	<b>Loans collateralized by motor vehicles</b>	<b>Loans collateralized by computer and equipment</b>	<b>Loans without collateral</b>	<b>Total</b>
Unsecured loans	-	-	-	-	543,771	<b>543,771</b>
Loans collateralized by:						
-residential real estate	-	1,941,587	-	-	-	<b>1,941,587</b>
-movable property	-	-	533,941	-	-	<b>533,941</b>
-precious metals	4,739,944	-	-	-	-	<b>4,739,944</b>
-computer and equipment	-	-	-	2,998	-	<b>2,998</b>
<b>Total loans to customers (before impairment)</b>	<b>4,739,944</b>	<b>1,941,587</b>	<b>533,941</b>	<b>2,998</b>	<b>543,771</b>	<b>7,762,241</b>

**MFO GIRO CREDIT LLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016***In Georgian Lari*

Information about collateral at 31 December 2015 is as follows:

	Loans collateralized by precious metals	Loans collateralized by real estate	Loans collateralized by motor vehicles	Loans collateralized by computer and equipment	Loans without collateral	Total
Unsecured loans	-	-	-	-	-	-
Loans collateralized by:						
-residential real estate	-	1,623,339	-	-	-	1,623,339
-movable property	-	-	543,459	-	-	543,459
-precious metals	4,313,252	-	-	-	-	4,313,252
-computer and equipment	-	-	-	1,696	-	1,696
<b>Total loans to customers (before impairment)</b>	<b>4,313,252</b>	<b>1,623,339</b>	<b>543,459</b>	<b>1,696</b>	<b>-</b>	<b>6,481,746</b>

Information about collateral at 01 January 2015 is as follows:

	Loans collateralized by precious metals	Loans collateralized by real estate	Loans collateralized by motor vehicles	Loans collateralized by computer and equipment	Loans without collateral	Total
Unsecured loans	-	-	-	-	-	-
Loans collateralized by:						
-residential real estate	-	844,071	-	-	-	844,071
-movable property	-	-	527,855	-	-	527,855
-precious metals	2,823,030	-	-	-	-	2,823,030
-computer and equipment	-	-	-	65,236	-	65,236
<b>Total loans to customers (before impairment)</b>	<b>2,823,030</b>	<b>844,071</b>	<b>527,855</b>	<b>65,236</b>	<b>-</b>	<b>4,260,192</b>

**MFO GIRO CREDIT LLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

*In Georgian Lari*

The analysis by credit quality of loans at 31 December 2016 is as follows:

	Loans collateralized by precious metals	Loans collateralized by real estate	Loans collateralized by motor vehicles	Loans collateralized by computer and equipment	Loans without collateral	Total
<i>Current and not impaired</i>						
Loans to individuals – new customers	1,882,370	953,436	358,634	-	529,554	3,723,994
Loans to individuals- customers with credit history of more than one year	1,923,293	510,713	92,588	-	-	2,526,594
<b>Total current and not impaired</b>	<b>3,805,663</b>	<b>1,464,149</b>	<b>451,222</b>	<b>-</b>	<b>529,554</b>	<b>6,250,588</b>
<i>Past due but not impaired</i>						
Less than 30 days overdue	122,664	-	-	-	-	122,664
30 to 60 days overdue	25,477	-	-	-	-	25,477
60 to 90 days overdue	7,031	-	-	-	-	7,031
90 to 180 days overdue	84	-	-	-	-	84
180 to 360 days overdue	-	-	-	-	-	-
More than 360 days overdue	-	-	-	-	-	-
<b>Total past due but not impaired</b>	<b>155,256</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>155,256</b>
<i>Loans individually determined to be impaired (gross)</i>						
<b>Total individually impaired loans (gross)</b>	<b>779,025</b>	<b>477,438</b>	<b>82,719</b>	<b>2,998</b>	<b>14,217</b>	<b>1,356,397</b>
<b>Gross carrying values of loans</b>	<b>4,739,944</b>	<b>1,941,587</b>	<b>533,941</b>	<b>2,998</b>	<b>543,771</b>	<b>7,762,241</b>
<i>Less impairment provisions</i>	(182,441)	(71,675)	(27,580)	(2,998)	(11,355)	(296,049)
<b>Total loans to customers</b>	<b>4,557,503</b>	<b>1,869,912</b>	<b>506,361</b>	<b>-</b>	<b>532,416</b>	<b>7,466,192</b>

**MFO GIRO CREDIT LLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

*In Georgian Lari*

The analysis by credit quality of loans at 31 December 2015 is as follows:

	Loans collateralized by precious metals	Loans collateralized by real estate	Loans collateralized by motor vehicles	Loans collateralized by computer and equipment	Loans without collateral	Total
<i>Current and not impaired</i>						
Loans to individuals – new customers	2,010,258	1,028,572	275,691	-	-	<b>3,314,521</b>
Loans to individuals- customers with credit history of more than one year	1,404,006	458,939	117,314	-	-	<b>1,980,259</b>
<b>Total current and not impaired</b>	<b>3,414,264</b>	<b>1,487,511</b>	<b>393,005</b>	<b>-</b>	<b>-</b>	<b>5,294,780</b>
<i>Past due but not impaired</i>						
Less than 30 days overdue	2,370	30,675	-	-	-	<b>33,045</b>
30 to 60 days overdue	-	17,535	-	-	-	<b>17,535</b>
60 to 90 days overdue	-	33,085	-	-	-	<b>33,085</b>
90 to 180 days overdue	305	-	-	-	-	<b>305</b>
180 to 360 days overdue	-	-	-	-	-	-
More than 360 days overdue	-	-	-	-	-	-
<b>Total past due but not impaired</b>	<b>2,675</b>	<b>81,295</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>83,970</b>
<i>Loans individually determined to be impaired (gross)</i>	896,313	54,533	150,454	1,696	-	1,102,996
<b>Total individually impaired loans (gross)</b>	<b>896,313</b>	<b>54,533</b>	<b>150,454</b>	<b>1,696</b>	<b>-</b>	<b>1,102,996</b>
<b>Gross carrying values of loans</b>	<b>4,313,252</b>	<b>1,623,339</b>	<b>543,459</b>	<b>1,696</b>	<b>-</b>	<b>6,481,746</b>
<i>Less impairment provisions</i>	(247,635)	(8,331)	(28,674)	(1,696)	-	(286,336)
<b>Total loans to customers</b>	<b>4,065,617</b>	<b>1,615,008</b>	<b>514,785</b>	<b>-</b>	<b>-</b>	<b>6,195,410</b>

**MFO GIRO CREDIT LLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

*In Georgian Lari*

The analysis by credit quality of loans at 01 January 2015 is as follows:

	Loans collateralized by precious metals	Loans collateralized by real estate	Loans collateralized by motor vehicles	Loans collateralized by computer and equipment	Loans without collateral	Total
<i>Current and not impaired</i>						
Loans to individuals – new customers	1,780,427	484,550	292,406	3,837		<b>2,561,220</b>
Loans to individuals- customers with credit history of more than one year	520,270	180,306	55,189	-		<b>755,765</b>
<b>Total current and not impaired</b>	<b>2,300,697</b>	<b>664,856</b>	<b>347,595</b>	<b>3,837</b>	<b>-</b>	<b>3,316,985</b>
<i>Past due but not impaired</i>						
Less than 30 days overdue	-	-	-	-	-	-
30 to 60 days overdue	-	-	-	-	-	-
60 to 90 days overdue	-	-	-	-	-	-
90 to 180 days overdue	-	-	-	-	-	-
180 to 360 days overdue	-	-	-	-	-	-
<b>Total past due but not impaired</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Loans individually determined to be impaired (gross)</i>						
	522,333	179,215	180,260	61,399		943,207
<b>Total individually impaired loans (gross)</b>	<b>522,333</b>	<b>179,215</b>	<b>180,260</b>	<b>61,399</b>	<b>-</b>	<b>943,207</b>
<b>Gross carrying values of loans</b>	<b>2,823,030</b>	<b>844,071</b>	<b>527,855</b>	<b>65,236</b>	<b>-</b>	<b>4,260,192</b>
<i>Less impairment provisions</i>	(195,804)	(53,870)	(32,212)	(32,482)	-	(314,368)
<b>Total loans to customers</b>	<b>2,627,226</b>	<b>790,201</b>	<b>495,643</b>	<b>32,754</b>	<b>-</b>	<b>3,945,824</b>

## MFO GIRO CREDIT LLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

*In Georgian Lari*

The MFO applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The MFO's policy is to classify each loan as "current and not impaired" until a specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the MFO considers whether a loan is impaired is its overdue status and realisability of related collateral, if any. As a result, the MFO presents above an ageing analysis of loans that are individually determined to be impaired. Current and not impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans represent collateralized loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans.

The precious metals are pledged under the loan from bank (see note 13).

Effect of exchange rate changes on loans to customers in 2016 was GEL 562,280 (2015: GEL 1,174,999).

Refer to Note 18 for the disclosure of the fair value of each class of financial assets.

## 11 Cash and cash equivalents

	31-Dec-16	31-Dec-15	01-Jan-15
Cash on hand	880,301	496,034	336,546
Cash at current bank accounts	8,367	482,047	315
<b>Total cash and cash equivalents</b>	<b>888,668</b>	<b>978,081</b>	<b>336,861</b>

Refer to Note 18 for the disclosure of the fair value of each class of financial assets.

## 12 Owner's 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

	31-Dec-16	31-Dec-15	01-Jan-15
<b>NON-CURRENT</b>			
Non-current portion of long-term loans from banks	684,564	3,680,194	2,356,497
Non-current portion of long-term loans from individuals	1,222,822	-	-
<b>Total non-current portion of long-term borrowings</b>	<b>1,907,386</b>	<b>3,680,194</b>	<b>2,356,497</b>

**MFO GIRO CREDIT LLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016***In Georgian Lari***CURRENT**

Current portion of long-term loans from banks	2,906,236	567,335	283,955
Current portion of long-term loans from individuals	1,581,511	1,313,074	896,664
Loans from legal entities	50,926	-	-
<b>Total current portion of borrowings</b>	<b>4,538,673</b>	<b>1,880,409</b>	<b>1,180,619</b>
<b>Total borrowings</b>	<b>6,446,059</b>	<b>5,560,603</b>	<b>3,537,116</b>

Loans from banks as at 31 December 2016 consist of the following loans:

	Maturity date	Annual interest rate	Amount in USD	Equivalent in GEL
Loan from Bank of Georgia, JSC	20-Dec-18	11.9%	-	1,300,000
Loan from TBC Bank, JSC	15-Jun-17	16%	-	46,311
Loan from TBC Bank, JSC	02-Apr-17	12%	828,243	2,192,194
Loan from Bank of Georgia, JSC	30-Jan-17	8.5%+LIBOR 6.	19,758	52,295
<b>Total loans from banks</b>			<b>848,001</b>	<b>3,590,800</b>

TBC loans are the line of credit with the limit of USD 2,500,000. 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).

Bank of Georgia term loans are secured by the office spaces (see Note 9) and the living spaces owned by Gela Gugumberidze and Liana Leqvtadze (the MFO's sole founder's family members). The loans are repayable in equal monthly installments until the maturity date.

Loans from individuals as at 31 December 2016 contain unsecured loans with 10.5%-16% annual rate and the principal repayable on the maturity dates.

According to the Bank of Georgia loan agreements certain conditions are imposed and the MFO is in compliance with.

Interest of GEL 595,700 was paid in 2016 (2015: GEL 563,062).

Effect of exchange rate changes on borrowings in 2016 was GEL 499,832 (2015: GEL 1,037,115).

Refer to Note 18 for the disclosure of the fair value of each class of financial liabilities.

**14 Deferred tax**

	31-Dec-16	31-Dec-15	01-Jan-15
Deferred tax asset	5,132	-	-
Deferred tax liability	(25,476)	(107,681)	(109,847)
<b>Net balance</b>	<b>(20,344)</b>	<b>(107,681)</b>	<b>(109,847)</b>



**MFO GIRO CREDIT LLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016***In Georgian Lari*

The deferred tax, which was recognised as income in the statement of profit or loss and comprehensive income amounted GEL 87,337.

As is described in note 8 On May 2016 the Parliament of Georgia approved significant changes in Georgian Tax code, which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The changes are effective for tax periods starting after 1 of January 2017.

Due to these changes as of 31 December 2016, deferred tax assets/liabilities are re-measured to the amount that is estimated to be utilized in the period from 1 January 2017 to 31 December 2018.

The tables below illustrate, in respect of each type of temporary difference, the movements of deferred tax assets and liabilities recognised in the period.

<b>DEFERRED TAX ASSETS</b>	<b>Other comprehensive income</b>	<b>Porfit or loss</b>	<b>Total</b>
<b>As at 1 January 2014</b>	-	-	-
Borrowings	-	-	-
Other liabilities	-	-	-
<b>As at 1 January 2015</b>	-	-	-
Borrowings	-	-	-
Other liabilities	-	-	-
<b>As at 31 December 2015</b>	-	-	-
Borrowings	-	3,130	3,130
Other liabilities	-	2,002	2,002
<b>As at 31 December 2016</b>	-	<b>5,132</b>	<b>5,132</b>

<b>DEFERRED TAX LIABILITIES</b>	<b>Other comprehensive income</b>	<b>Porfit or loss</b>	<b>Total</b>
<b>As at 1 January 2014</b>	-	<b>(52,153)</b>	<b>(52,153)</b>
Property and equipment	-	(57,694)	(57,694)
<b>As at 1 January 2015</b>	-	<b>(109,847)</b>	<b>(109,847)</b>
Property and equipment	-	2,166	2,166
<b>As at 31 December 2015</b>	-	<b>(107,681)</b>	<b>(107,681)</b>
Property and equipment	-	82,205	82,205
<b>As at 31 December 2016</b>	-	<b>(25,476)</b>	<b>(25,476)</b>

## MFO GIRO CREDIT LLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

*In Georgian Lari*

#### 15 Other Liabilities

	31-Dec-16	31-Dec-15	01-Jan-15
Trade payables	24,045	12,132	13,532
Advances received	7,479	1,307	430
Taxes payable other than income tax	4,269	1,327	2,073
<b>Total other liabilities</b>	<b>35,793</b>	<b>14,766</b>	<b>16,035</b>

Refer to Note 18 for the disclosure of the fair value of each class of financial liabilities.

#### 16 Financial Risk Management

The risk management function within the MFO is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

**Credit risk.** The MFO takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the MFO's lending and other transactions with counterparties giving rise to financial assets.

The MFO's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment.

The MFO structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Limits on the level of credit risk by borrowers are approved regularly by management.

Exposure to credit risk is also managed, in part, by obtaining collateral and personal guarantees.

The MFO does not use formalised internal credit ratings to monitor exposures to credit risk. Management monitors and follows up on past due balances.

The MFO's credit department reviews ageing analysis of outstanding loans and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk.

**MFO GIRO CREDIT LLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

*In Georgian Lari*

Credit risk exposures relating to on-balance sheet assets are as follows:

	31-Dec-16		31-Dec-15		01-Jan-15	
	Amount	%	Amount	%	Amount	%
<b>Individuals</b>						
Loans collateralized by precious metals	4,739,944	61%	4,313,252	67%	2,823,030	66%
Loans collateralized by real estate	1,941,587	25%	1,623,339	25%	844,071	20%
Loans collateralized by motor vehicles	533,941	7%	543,459	8%	527,855	12%
Loans collateralized by computer and other equipment	2,998	0%	1,696	0%	65,236	2%
Loans without collateral	543,771	7%	-	0%	-	0%
<b>Total individuals</b>	<b>7,762,241</b>	<b>100%</b>	<b>6,481,746</b>	<b>100%</b>	<b>4,260,192</b>	<b>100%</b>
<b>Total loans and advances to customers (before impairment)</b>	<b>7,762,241</b>	<b>100%</b>	<b>6,481,746</b>	<b>100%</b>	<b>4,260,192</b>	<b>100%</b>

The above table represents a worse-case scenario of credit risk exposure to the MFO at 31 December 2016, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

**Market risk.** The MFO takes on exposure to market risks. Market risks arise from open positions in (a) currency, and (b) interest rate, all of which are exposed to general and specific market movements.

**Currency risk.** The MFO takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarizes the MFO's exposure to foreign currency exchange rate risk at the balance sheet date:

	At 31 December 2016		
	Monetary financial assets	Monetary financial liabilities	Net position
US Dollars	6,123,646	5,001,341	1,122,305
Euros	161,699	11,252	150,447
GBP	31,325	-	31,325
RUB	54,552	-	54,552
Other	3,642	-	3,642
<b>Total</b>	<b>6,374,864</b>	<b>5,012,593</b>	<b>1,362,271</b>

**MFO GIRO CREDIT LLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

*In Georgian Lari*

	<b>At 31 December 2015</b>		
	<b>Monetary financial assets</b>	<b>Monetary financial liabilities</b>	<b>Net position</b>
US Dollars	6,776,744	5,327,361	1,449,383
Euros	25,993	42,122	(16,129)
GBP	8,660	-	8,660
RUB	6,141	-	6,141
Other	13,687	-	13,687
<b>Total</b>	<b>6,831,225</b>	<b>5,369,483</b>	<b>1,461,742</b>

	<b>At 1 January 2015</b>		
	<b>Monetary financial assets</b>	<b>Monetary financial liabilities</b>	<b>Net position</b>
US Dollars	4,064,745	3,496,746	567,999
Euros	8,663	4,758	3,905
GBP	13,135	-	13,135
RUB	20,612	-	20,612
Other	5,290	-	5,290
<b>Total</b>	<b>4,112,445</b>	<b>3,501,504</b>	<b>610,941</b>

The above analysis includes only monetary assets and liabilities. Non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

	<b>31-Dec-16</b>
	<b>Impact on profit or loss</b>
US Dollars strengthening by 10%	95,396
US Dollars weakening by 10%	(95,396)
Euro strengthening by 10%	12,788
Euro weakening by 10%	(12,788)
GBP strengthening by 10%	2,663
GBP weakening by 10%	(2,663)
RUB strengthening by 10%	4,637
RUB weakening by 10%	(4,637)

**MFO GIRO CREDIT LLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

*In Georgian Lari*

	<b>31-Dec-15</b>
	<b>Impact on profit or loss</b>
US Dollars strengthening by 10%	123,198
US Dollars weakening by 10%	(123,198)
Euro strengthening by 10%	(1,371)
Euro weakening by 10%	1,371
GBP strengthening by 10%	736
GBP weakening by 10%	(736)
RUB strengthening by 10%	522
RUB weakening by 10%	(522)

	<b>01-Jan-15</b>
	<b>Impact on profit or loss</b>
US Dollars strengthening by 10%	48,280
US Dollars weakening by 10%	(48,280)
Euro strengthening by 10%	332
Euro weakening by 10%	(332)
GBP strengthening by 10%	1,116
GBP weakening by 10%	(1,116)
RUB strengthening by 10%	1,752
RUB weakening by 10%	(1,752)

Other than as a result of any impact on the MFO's profit or loss, there is no other impact on the MFO's equity as a result of such changes in exchange rates. The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the MFO.

**Interest rate risk.** The MFO takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise.

The MFO monitors interest rates for its financial instruments. The table below summarizes interest rates based on reports reviewed by key management personnel:

<i>In % p.a.</i>	2016			2015			2014		
	<b>GEL</b>	<b>USD</b>	<b>EUR</b>	<b>GEL</b>	<b>USD</b>	<b>EUR</b>	<b>GEL</b>	<b>USD</b>	<b>EUR</b>
<b>Financial assets</b>									
Loans to customers	24%-40%	12%-66%	-	24%-30%	15%-66%	-	-	16%-84%	-
<b>Financial liabilities</b>									
Borrowings	13%-16%	10.5%-16%	13%	12%-16%	10%-16%	15%	16%	11%-16%	15%

**MFO GIRO CREDIT LLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

*In Georgian Lari*

**Geographical risk concentrations.** The geographical concentration of the MFO's financial assets and liabilities at 31 December 2016 is set out below:

	<b>Georgia</b>	<b>OECD countries</b>	<b>Total</b>
<b>Financial assets</b>			
Cash and cash equivalents	888,668	-	888,668
Loans to customers	7,466,192	-	7,466,192
Other financial assets	13,535	-	13,535
<b>Total financial assets</b>	<b>8,368,395</b>	<b>-</b>	<b>8,368,395</b>
<b>Financial liabilities</b>			
Borrowings	6,446,059	-	6,446,059
Other financial liabilities	24,045	-	24,045
<b>Total financial liabilities</b>	<b>6,470,104</b>	<b>-</b>	<b>6,470,104</b>
<b>NET POSITION</b>	<b>1,898,291</b>	<b>-</b>	<b>1,898,291</b>

The geographical concentration of the MFO's financial assets and liabilities at 31 December 2015 is set out below:

	<b>Georgia</b>	<b>OECD countries</b>	<b>Total</b>
<b>Financial assets</b>			
Cash and cash equivalents	978,081	-	978,081
Loans to customers	6,195,410	-	6,195,410
Other financial assets	228	-	228
<b>Total financial assets</b>	<b>7,173,719</b>	<b>-</b>	<b>7,173,719</b>
<b>Financial liabilities</b>			
Borrowings	5,560,603	-	5,560,603
Other financial liabilities	13,440	-	13,440
<b>Total financial liabilities</b>	<b>5,574,043</b>	<b>-</b>	<b>5,574,043</b>
<b>NET POSITION</b>	<b>1,599,676</b>	<b>-</b>	<b>1,599,676</b>

The geographical concentration of the MFO's financial assets and liabilities at 1 January 2015 is set out below:

	<b>Georgia</b>	<b>OECD countries</b>	<b>Total</b>
<b>Financial assets</b>			
Cash and cash equivalents	336,861	-	336,861
Loans to customers	3,945,824	-	3,945,824
Other financial assets	731	-	731
<b>Total financial assets</b>	<b>4,283,416</b>	<b>-</b>	<b>4,283,416</b>

**MFO GIRO CREDIT LLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016***In Georgian Lari***Financial liabilities**

Borrowings	3,537,116	-	3,537,116
Other financial liabilities	13,532	-	13,532
<b>Total financial liabilities</b>	<b>3,550,648</b>	<b>-</b>	<b>3,550,648</b>
<b>NET POSITION</b>	<b>732,768</b>	<b>-</b>	<b>732,768</b>

**Liquidity risk.** Liquidity risk is the risk that the MFO will encounter difficulty in meeting obligations arising from its financial obligations. It refers to the availability of sufficient funds to meet borrowings withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. In order to manage liquidity risk, the MFO performs daily monitoring of future expected cash flows on clients' and operations, which is part of the assets/liabilities management process.

The contractual maturity analysis of balance sheet at 31 December 2016 is as follows:

	Weighted average effective interest rate	Up to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Total
<b>Financial assets</b>						
Cash balances	-	-	-	-	-	-
Loans to customers	24%	7,466,192	-	-	-	7,466,192
<b>Total interest bearing assets</b>		<b>7,466,192</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,466,192</b>
<b>Financial Assets</b>						
Cash balances	-	888,668	-	-	-	888,668
Other Financial Assets	-	13,535	-	-	-	13,535
<b>Total financial assets</b>		<b>8,368,395</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,368,395</b>
<b>Financial Liabilities</b>						
Borrowings	12%	4,538,673	1,907,386	-	-	6,446,059
<b>Total interest bearing liabilities</b>		<b>4,538,673</b>	<b>1,907,386</b>	<b>-</b>	<b>-</b>	<b>6,446,059</b>
Other financial liabilities	-	24,045	-	-	-	24,045
<b>Total financial liabilities</b>	<b>-</b>	<b>4,562,718</b>	<b>1,907,386</b>	<b>-</b>	<b>-</b>	<b>6,470,104</b>
Liquidity gap		3,805,677	(1,907,386)	-	-	1,898,291

At the end of the period there is liquidity gap of GEL 1,907,386 (2015: GEL 3,680,194; 2014: GEL 2,356,297) for the period of 1 year to 3 years. Most of the gap is a result of borrowings, that are payable in 2018 and loans to customers that are receivable within 1 year. The MFO issues loans with the maturity of 1 month, 3 months, 6 months and 1 year, but if there are no past due payments, the repayment of principal may be rescheduled every month (3 months, 6 months or a year accordingly). Management believes that every year the average loan portfolio of the MFO will be equal with the portfolio of 2016 and this liquidity gap does not possess risk for going concern.

**MFO GIRO CREDIT LLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

*In Georgian Lari*

The contractual maturity analysis of balance sheet at 31 December 2015 is as follows:

	Weighted average effective interest rate	Up to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Total
<b>Financial assets</b>						
Cash balances	-	-	-	-	-	-
Loans to customers	26%	6,195,410	-	-	-	6,195,410
<b>Total interest bearing assets</b>		<b>6,195,410</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,195,410</b>
Cash balances	-	978,081	-	-	-	978,081
Other Financial Assets	-	228	-	-	-	228
<b>Total financial assets</b>		<b>7,173,719</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,173,719</b>
<b>Financial Liabilities</b>						
Borrowings	12%	1,880,409	3,680,194	-	-	5,560,603
<b>Total interest bearing liabilities</b>		<b>1,880,409</b>	<b>3,680,194</b>	<b>-</b>	<b>-</b>	<b>5,560,603</b>
Other financial liabilities	-	13,440	-	-	-	13,440
<b>Total financial liabilities</b>	<b>-</b>	<b>1,893,849</b>	<b>3,680,194</b>	<b>-</b>	<b>-</b>	<b>5,574,043</b>
Liquidity gap		5,279,870	(3,680,194)	-	-	1,599,676

The contractual maturity analysis of balance sheet at 1 January 2015 is as follows:

	Weighted average effective interest rate	Up to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Total
<b>Financial assets</b>						
Cash balances	-	-	-	-	-	-
Loans to customers	26%	3,945,824	-	-	-	3,945,824
<b>Total interest bearing assets</b>	<b>-</b>	<b>3,945,824</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,945,824</b>
Cash balances	-	336,861	-	-	-	336,861
Other Financial Assets	-	731	-	-	-	731
<b>Total financial assets</b>		<b>4,283,416</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,283,416</b>
<b>Financial Liabilities</b>						
Borrowings	12%	1,180,619	2,356,497	-	-	3,537,116
<b>Total interest bearing liabilities</b>		<b>1,180,619</b>	<b>2,356,497</b>	<b>-</b>	<b>-</b>	<b>3,537,116</b>
Other financial liabilities	-	13,532	-	-	-	13,532
<b>Total financial liabilities</b>	<b>-</b>	<b>1,194,151</b>	<b>2,356,497</b>	<b>-</b>	<b>-</b>	<b>3,550,648</b>
Liquidity gap		3,089,265	(2,356,497)	-	-	732,768



## 17 Contingencies and Commitments

### *Operating lease commitments.*

	2016	2015	2014
Within 1 year	41,671	14,369	11,182
From 1 year to 5 years	229,910	20,357	27,022
Later than 5 years	195,424	-	-
<b>Total future lease payables</b>	<b>467,005</b>	<b>34,726</b>	<b>38,204</b>

The MFO rents office space (31 Kazbegi street, Tbilisi) under non-cancellable operating lease agreement with maturity on 04 April 2027.

In March, 2016 the MFO was audited by LEPF Financial Monitoring Service of Georgia under money laundering and terrorist financing control regulations, certain instances of non-compliance were observed and fined of GEL 64,600 was imposed on MFO. The MFO has appealed the decision in court and the legal advisor of MFO is confident that the decision of the court shall be in favor of MFO.

## 18 Fair Value of Financial Instruments

Fair value is 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 estimated fair values of financial instruments have been determined by the MFO using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be out dated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

The MFO uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

**Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the is the current bid price. These instruments are included in level 1.

**Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

**Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

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The table below analysis financial instruments recorded at fair value by the level of the fair value hierarchy:

	<b>2016</b>			<b>Total:</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Financial assets</b>				
Cash and cash equivalents	888,668	-	-	888,668
Loans to customers	-	-	7,466,192	7,466,192
Other financial assets	-	-	13,535	13,535
<b>Total FINANCIAL ASSETS</b>	<b>888,668</b>	<b>-</b>	<b>7,479,727</b>	<b>8,368,395</b>

<b>Financial liabilities</b>				
Borrowings	-	-	6,446,059	6,446,059
Other financial liabilities	-	-	24,045	24,045
<b>Total FINANCIAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>6,470,104</b>	<b>6,470,104</b>

	<b>2015</b>			<b>Total:</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Financial assets</b>				
Cash and cash equivalents	978,081	-	-	978,081
Loans to customers	-	-	6,195,410	6,195,410
Other financial assets	-	-	228	228
<b>Total FINANCIAL ASSETS</b>	<b>978,081</b>	<b>-</b>	<b>6,195,638</b>	<b>7,173,719</b>

<b>Financial liabilities</b>				
Borrowings	-	-	5,560,603	5,560,603
Other financial liabilities	-	-	13,440	13,440
<b>Total FINANCIAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>5,574,043</b>	<b>5,574,043</b>

	<b>2014</b>			<b>Total:</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Financial assets</b>				
Cash and cash equivalents	336,861	-	-	336,861
Loans to customers	-	-	3,945,824	3,945,824
Other financial assets	-	-	731	731
<b>Total FINANCIAL assets</b>	<b>336,861</b>	<b>-</b>	<b>3,946,555</b>	<b>4,283,416</b>

<b>Financial liabilities</b>				
Borrowings	-	-	3,537,116	3,537,116
Other financial liabilities	-	-	13,532	13,532
<b>Total FINANCIAL liabilities</b>	<b>-</b>	<b>-</b>	<b>3,550,648</b>	<b>3,550,648</b>

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**Fair values of financial instruments carried at amortized cost.** The comparison by class of the carrying amounts and fair values of the MFO's financial instruments that are not carried at fair value in the statement of financial position is shown in table below. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2016		2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
<b>FINANCIAL Assets</b>						
Cash and cash equivalents	888,668	888,668	978,081	978,081	336,861	336,861
Loans to customers	7,466,192	7,466,192	6,195,410	6,195,410	3,945,824	3,945,824
Other financial assets	13,535	13,535	228	228	731	731
<b>TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST</b>	<b>8,368,395</b>	<b>8,368,395</b>	<b>7,173,719</b>	<b>7,173,719</b>	<b>4,283,416</b>	<b>4,283,416</b>

	2016		2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
<b>FINANCIAL LIABILITIES</b>						
Borrowings	6,446,059	6,446,059	5,560,603	5,560,603	3,537,116	3,537,116
Other financial liabilities	24,045	24,045	13,440	13,440	13,532	13,532
<b>TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST</b>	<b>6,470,104</b>	<b>6,470,104</b>	<b>5,574,043</b>	<b>5,574,043</b>	<b>3,550,648</b>	<b>3,550,648</b>

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. All of the MFO's financial assets excluding loans to customers and borrowings are either liquid or are maturing within three months from the reporting date.

The fair value of loans to customers is estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial assets. The majority of loans to customers outstanding as at 31 December were issued within 12 month's period ended 31 December 2016 at market interest rates, while the contractual interest rates of those loans issued in 2015 approximate market rates as at 31 December 2016. Hence their carrying value approximates their fair value.

**19 Related Party Transactions**

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention directed to the substance of the relationship, not merely the legal form.

**MFO GIRO CREDIT LLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016***In Georgian Lari*

	<b>2016</b>	<b>2015</b>
<b>AMOUNT TRANSACTIONS:</b>		
Interest income		
- <i>key management personnel of the entity or its parent</i>	-	4,408
Interest expense		
- <i>entities with joint control or significant influence over the entity</i>	86,842	63,678

<b>OUTSANDING BALANCES AS AT 31 DECEMBER</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Loans to customers			
<i>key management personnel of the entity or its parent</i>	-	67,385	-
Borrowings			
- <i>entities with joint control or significant influence over the entity</i>	899,118	475,268	335,448

Key management compensation is presented below:

	<b>2016</b>	<b>2015</b>
<i>Short-term benefits – salaries and bonuses</i>	26,520	24,120
<b>Total</b>	<b>26,520</b>	<b>24,120</b>

**20 Transition to IFRS**

The MFO's financial statements for the year ended 31 December 2016 are its first full set of financial statements in accordance with IFRS. The MFO's transition date is 1 January 2015 and its opening IFRS statement of financial position was prepared at that date.

There was no material reconciliation of the equity as at 1 January 2015 date of transition to IFRS.

**21 Events After the Reporting Period**

No significant events happened after the reporting period.