MICROFINANCE ORGANIZATION
GIRO CREDIT
LIMITED LIABILITY COMPANY

FINANCIAL STATEMENTS
AND
AUDIT REPORT

31 DECEMBER 2014

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Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2014

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

Management is responsible for the preparation of the financial statements that present fairly the financial position of the MFO at 31 December 2014, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standard for Small and Medium-sized enterprises ("IFRS for SMEs").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2014 were authorized for issue on 3 April 2015 by the Management Board.

Giorgi Gugumberidze Director	Mariana Mkhitaryan Accountant

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Microfinance Organization Giro Credit Limited Liability Company (the "MFO"), which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (the "Financial Statements").

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

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

Opinion

In our opinion, the accompanying Financial Statements present fairly, in all material respects, the financial position of the MFO as at 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standardfor Small and Medium-sized Entities.

3 April 2015
RSM Capto

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2014 GEL	2013 GEL
INTEREST INCOME		1,081,460	820,849
Interest expense		(342,542)	(197,606)
Net interest income	**4**	**738,918**	**623,243**
Loan impairment losses	10	(170,466)	(189,108)
Net interest income after loan impairment losses		**568,452**	**434,135**
Income from fines	5	222,199	161,840
Net gain from currency trading		143,469	36,571
Other operating income		14,085	21,787
Operating expenses	6	(303,178)	(191,435)
Net foreign exchange translation gain	7	31,762	28,926
Profit before tax		**676,789**	**491,824**
Income tax expense	8	(128,445)	(102,357)
Profit for the year		**548,344**	**389,467**
OTHER COMREHENSIVE INCOME/LOSS		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**548,344**	**389,467**

Approved for issue and signed on behalf of the Management Board on 3 April 2015.

Giorgi Gugumberidze
Director

Mariana Mkhitaryan
Accountant

STATEMENT OF FINANCIAL POSITION

	Notes	2014 GEL	2013 GEL
ASSETS			
Property and equipment	9	737,697	353,669
Loans to customers	10	3,945,824	2,346,403
Current tax asset		-	32,991
Other assets		1,323	541
Cash and cash equivalents	11	336,861	123,370
TOTAL ASSETS		**5,021,705**	**2,856,974**
EQUITY			
Owner's capital	12	251,083	251,083
Retained earnings		1,089,883	706,270
TOTAL EQUITY		**1,340,966**	**957,353**
LIABILITIES			
Borrowings	13	3,537,116	1,839,740
Deferred tax liability	14	109,847	52,153
Current tax liability		20,454	-
Other liabilities		13,322	7,728
TOTAL LIABILITIES		**3,680,739**	**1,899,621**
TOTAL LIABILITIES AND EQUITY		**5,021,705**	**2,856,974**

Approved for issue and signed on behalf of the Management Board on 3 April 2015.

Giorgi Gugumberidze
Director

Mariana Mkhitaryan
Accountant

STATEMENT OF CHANGES IN EQUITY

	Owner's capital	Retained earnings	TOTAL
	GEL	GEL	GEL
Balance at 1 January 2013	**251,083**	**350,826**	**601,909**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	389,467	389,467
Dividend paid - Final for 2012	-	(34,023)	(34,023)
Balance at 31 December 2013	**251,083**	**706,270**	**957,353**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	548,344	548,344
Dividend paid - Final for 2013	-	(164,731)	(164,731)
BALANCE AT 31 DECEMBER 2014	**251,083**	**1,089,884**	**1,340,967**

Approved for issue and signed on behalf of the Management Board on 3 April 2015.

Giorgi Gugumberidze
Director

Mariana Mkhitaryan
Accountant

STATEMENT OF CASH FLOWS

		2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES	Notes	GEL	GEL
Profit for the year		548,344	389,467
Adjustments for:			
Income tax expense		128,445	102,357
Depreciation and amortization	6	34,634	14,096
Loss on sale of office equipment		-	1,059
Changes in operating assets and liabilities:			
Increase in loans to customers		(1,599,421)	(1,333,635)
Decrease (increase) in other assets		(782)	10,998
Increase (decrease) in other liabilities		5,594	(9,215)
Cash used in operations		**(883,186)**	**(824,873)**
Income tax paid		(17,451)	(149,400)
Net cash used in operating activities		**(900,637)**	**(974,273)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	9	(418,517)	(71,650)
Proceeds from disposal of property and equipment		-	445
Net cash used in investing activities		**(418,517)**	**(71,205)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in borrowings		1,697,376	1,158,008
Dividends paid		(164,731)	(34,023)
Net cash generated by financing activities		**1,532,645**	**1,123,985**
INCREASE IN CASH AND CASH EQUIVALENTS		**213,491**	**78,507**
MOVEMENT IN CASH AND CASH EQUIVALENTS			
At start of year		123,370	44,863
Increase		213,491	78,507
AT END OF YEAR	**11**	**336,861**	**123,370**

Approved for issue and signed on behalf of the Management Board on 3 April 2015.

Giorgi Gugumberidze
Director

Mariana Mkhitaryan
Accountant

NOTES

1 General information

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

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

The MFO employed total staff of 21 as at 31 December 2014 (31 December 2013: 12).

These financial statements were approved for issue by the management on 3 April 2015.

2 Basis of preparation and summary of significant accounting policies

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

Financial instruments

(a) Loans to customers

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

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

(b) Borrowings

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

Income and expense recognition

(a) Interest income and expense

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

(b) Income from fines

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

(c) Gain/loss gain from currency trading

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

(d) Operating expenses

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

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

Translation of foreign currencies

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

The applicable exchange rates used were:

	Official currency rate of the NBG	
	USD	EUR
Exchange rate as at 31 December 2014	1.86	2.27
Exchange rate as at 31 December 2013	1.74	2.39
Average rate for the year ended 31 December 2014	1.77	2.35
Average rate for the year ended 31 December 2013	1.66	2.21

Income tax

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

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

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

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

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

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

Owner’s capital and dividends payable

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

Property and equipment

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

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

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

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

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

3 Judgements and key sources of estimation uncertainty

Management has made key assumptions regarding the impairment of financial assets, as disclosed in Note10.

4 Net interest income

	2014	2013
	GEL	GEL
Interest income from loans collateralized by precious metals	396,704	218,529
Interest income from loans collateralized by motor vehicles	366,943	330,552
Interest income from loans collateralized by real estate	233,103	142,434
Interest income from loans collateralized by computer and other equipment	84,710	129,334
	1,081,460	**820,849**
Interest expense on loans from banks	(230,485)	(108,298)
Interest expense on loans from individuals	(112,057)	(89,308)
	(342,542)	**(197,606)**
NET INTEREST INCOME	**738,918**	**623,243**

5 Income from fines

	2014	2013
	GEL	GEL
Income from fines on loans collateralized by precious metals	101,627	54,111
Income from fines on loans collateralized by motor vehicles	95,025	86,773
Income from fines on loans collateralized by real estate	25,481	20,956
Income from fines on loans collateralized by computer equipment	66	-
	222,199	**161,840**

6 Operating expenses

	2014	2013
	GEL	GEL
Staff costs	179,933	113,740
Depreciation and amortization	34,634	14,096
Professional services	12,063	12,280
Taxes other than income	10,891	4,902
Office rent	10,648	9,989
Marketing	10,075	10,325
Utilities	8,570	5,938
Communication	7,582	7,465
Other operating expenses	28,782	12,700
	303,178	**191,435**

7 Net foreign exchange translation gain

	2014	2013
	GEL	GEL
Foreign exchange translation gain	234,223	107,190
Foreign exchange translation loss	(202,461)	(78,264)
	31,762	**28,926**

8 Income tax expense

	2014	2013
	GEL	GEL
Current tax	70,751	50,292
Deferred tax (Note 14)	57,694	52,065
	128,445	**102,357**

Income tax is calculated at 15 per cent (2013: 15 per cent) of the estimated assessable profit for the year.

Income tax expense for the year ended 31 December 2014 of GEL 128,445 (2013: GEL102,357) differs from the amount that would result from applying the tax rate of 15 per cent (both 2014 and 2013) to profit before tax because the MFO does not deduct loan impairment losses from taxable profit.

9 Property and equipment

	Office space	Office equipment	Vehicles	Construction in progress	Total
	GEL	GEL	GEL	GEL	GEL
COST					
At 1 January 2013	**-**	**16,043**	**-**	**283,621**	**299,664**
Additions	14,132	57,518	-	-	71,650
Transfers	284,291	(670)	-	(283,621)	-
Disposals	-	(2,758)	-	-	(2,758)
At 31 December 2013	**298,423**	**70,133**	**-**	**-**	**368,556**
Additions	316,385	78,199	23,933	-	418,517
Disposals	-	-	-	-	-
At 31 December 2014	**614,808**	**148,332**	**23,933**	**-**	**787,073**
ACCUMULATED DEPRECIATION					
At 1 January 2013	**-**	**2,046**	**-**	**-**	**2,046**
Annual depreciation	6,379	7,598	-	-	13,977
Less accumulated depreciation on assets disposed of	-	(1,136)	-	-	(1,136)
At 31 December 2013	**6,379**	**8,508**	**-**	**-**	**14,887**
Annual depreciation	12,703	18,367	3,419	-	34,489
At 31 December 2014	**19,082**	**26,875**	**3,419**	**-**	**49,376**
CARRYING AMOUNT					
AT 31 DECEMBER 2013	**292,044**	**61,625**	**-**	**-**	**353,669**
AT 31 DECEMBER 2014	**595,726**	**121,457**	**20,514**	**-**	**737,697**

New office space was purchased in 23 of January 2014. Purchase price amounted 149,500 USD (266,379 GEL)

Office is situated at 19a Kazbegi Ave.,Tbilisi.

Two office spaces(where MFO’s branches are located), are being pledged under the bank loan (see Note 13).

10 Loans to customers

	2014 GEL	2013 GEL
Loans collateralized by precious metals	2,823,030	1,452,342
Loans collateralized by real estate	844,071	585,423
Loans collateralized by motor vehicles	527,855	420,923
Loans collateralized by computer and other equipment	65,236	87,444
Total loans to customers (before impairment)	**4,260,192**	**2,546,132**
Less: Provision for loan impairment	(314,368)	(199,729)
	3,945,824	**2,346,403**

Movements in the provision for loan impairment during 2014 were as follows:

	Loans collateralized by precious metals GEL	Loans collateralized by real estate GEL	Loans collateralized by motor vehicles GEL	Loans collateralized by computer and other equipment GEL	Total GEL
At 1 January 2014	**137,428**	**25,902**	**9,456**	**26,943**	**199,729**
Provision for impairment during the year	97,461	27,968	26,490	18,547	170,466
Amounts written off during the year as uncollectible	(39,085)	-	(3,734)	(13,008)	(55,827)
AT 31 DECEMBER 2014	**195,804**	**53,870**	**32,212**	**32,482**	**314,368**

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

Loans collateralized by precious metals are initially offered for one month term. However if there are no past due payments, the repayment of principal may be rescheduled every month. Weighted average monthly interest rate on the loans outstanding as at 31 December 2014 was 1.72% (31 December 2013: 2.01%).The precious metals are pledged under the loan from bank (see Note 13).

Loans collateralized by real estate are initially given for six month term with interest payable monthly and principal at maturity. However if the monthly interest is paid timely, the principal repayment may be rescheduled for every six months. Weighted average monthly interest rate on the loans outstanding as at 31 December 2014 was 2.27% (31 December 2013: 2.78%).

Loans collateralized by motor vehicles are initially given for the three month term with interest payable monthly and principal at maturity. However if the monthly interest is repaid timely, the principal repayment may be rescheduled every three months. Weighted average monthly interest rate on the loans outstanding as at 31 December 2014 was 4.81% (31 December 2013: 5.53%).

Loans collateralized by computer and other equipment are initially given for ten and fifteen days. However if there is no overdue payments, the repayment of principal may be rescheduled for every ten or fifteen days. Weighted average monthly interest rate on the loans outstanding as at 31 December 2014 was 15.46% (31 December 2013: 16.84%).

All the loans are issued in USD.

Credit quality of loans as at 31 December 2014 were as follows (the loans that are no longer being repaid by the customers and the MFO has decided to recover by selling underlying collateral are classified as bad debts):

	Loans collateralized by real estate	Loans collateralized by precious metals	Loans collateralized by motor vehicles	Loans collateralized by computer and other equipment	Total
	GEL	GEL	GEL	GEL	GEL
Loans without overdue payments	665,370	2,302,391	367,440	3,851	3,319,488
Loans with overdue payments	158,100	414,440	42,241	17,167	692,271
Bad debts	20,601	106,199	11,242	44,218	248,433
Total loans to customers (before impairment)	**844,071**	**2,823,030**	**420,923**	**65,236**	**4,260,192**
Less: Provision for loan impairment	(53,870)	(195,804)	(9,456)	(32,482)	(314,368)
TOTAL LOANS TO CUSTOMERS	**790,201**	**2,627,226**	**411,467**	**32,754**	**3,945,824**

11 Cash and cash equivalents

	2014	2013
	GEL	GEL
Cash in hand	336,546	122,399
Cash at bank	315	971
	336,861	**123,370**

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

	2014 GEL	2013 GEL
NON-CURRENT		
Long-term loans from banks	2,356,497	1,233,114
	2,356,497	**1,233,114**
CURRENT		
Current portion of long-term loans from banks	283,955	92,476
Loans from individuals	896,664	514,150
	1,180,619	**606,626**
TOTAL BORROWINGS	**3,537,116**	**1,839,740**

Loans from banks as at 31 December 2014 consist of the following loans:

	Maturity date	Annual interest rate	Amount in USD	Equivalent in GEL
TBC Bank JSC ("TBC loan")	2 April 2017	12%	1,264,486	2,356,497
Bank of Georgia JSC ("BoG loan")	27 August 2015	9.5%	152,369	283,955
			1,416,855	**2,640,452**

TBC loan is the credit line 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).

BoG loan is 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). It is repayable in monthly equal instalments until the maturity date.

Loans from individuals as at 31 December 2014 consist of blank loans with interest payable monthly at 13% to 16% annual rate and the principals repayable on the maturity dates within one year.

14 Deferred income tax

The deferred income tax liability is the tax effect of expected future income tax benefit relating to differences between the carrying amounts and tax values of property and equipment. Deferred income tax liability as at 31 December 2014 was GEL 109,847 (2013: GEL 52,153) and deferred income tax expense during the period was GEL 57,635 (2013: GEL 52,065).

15 Commitments under operating leases

The MFO rents office space (31 Kazbegi street, Tbilisi) under non-cancellable operating lease agreement with maturity on 30 May 2018.

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

	2014 GEL	2013 GEL
Within one year	11,182	10,418
Later than one year but not later than five years	27.022	27,781
TOTAL FUTURE MINIMUM LEASE PAYMENTS	**38,204**	**38,199**

16 Related party transactions

The following table illustrates the material transactions with related parties that occurred during the period concerned and outstanding balances with related parties at 31 December 2014:

	2014	2013
	GEL	GEL
AMOUNT OF TRANSACTIONS:		
Interest expense	54,425	53,971
OUTSTANDING BALANCES:		
Borrowings	335,448	312,534

Key management compensation in 2014 was GEL 21,600 (2013: GEL 22,000).

17 Events after the end of the reporting period

On 2 April 2015 the MFO has prolonged credit line agreement with TBC Bank JSC. The credit line limit is USD 2,500,000 (maturity: 24 months; collateral: precious metals).