MFO Giro Credit LTD

Financial Statements and

Independent Auditor's Report

Year ended 31 December 2018

Contents:

INDEPENDENT AUDITOR'S REPORT

To the management of MFO Giro Credit Ltd

Opinion

We have audited the financial statements of **MFO GIRO CREDIT LTD**, (hereinafter - the Company) which comprise the statement of financial position as at 31st December 2018, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31st December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

The engagement partner responsible for the audit resulting in this independent auditor's report is Ivane Zhuzhunashvili (# SARAS-A-720718).

For and on behalf of BDO LLC

Tbilisi, Georgia

August 7, 2019

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For and on behalf of BDO LLC

Tbilisi, Georgia

August 7, 2019

MFO GIRO CREDIT LTD

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2018

(In GEL)

	Note	2018	2017
Interest income	5	2,442,011	1,891,032
Interest expense	6	(1,141,235)	(980,982)
Net interest income		**1,300,776**	**910,050**
Loan impairment allowance	13	(176,927)	(55,546)
Net interest income after loan impairment allowance		**1,123,849**	**854,504**
Other income	7	1,185,390	872,216
Employee benefit expenses	8	(800,570)	(536,958)
Depreciation and amortization charge	12	(112,865)	(102,215)
Other expenses	9	(571,982)	(391,255)
Net gain/)loss) from financial assets at fair value through profit and loss	15	(82,373)	5,037
Foreign Exchange gain/(loss), net	10	(95,229)	172,454
Profit before taxation		**646,220**	**873,783**
Income tax expense	11	(72,981)	(155,234)
Total comprehensive income for the year		**573,239**	**718,549**

These financial statements were approved by management on August 7, 2019 and were signed on its behalf by:

Director	____________________	Giorgi Gugumberidze
Chief Accountant	____________________	Mariana Mkhitariani

The notes set out on pages 9 to 36 form an integral part of these financial statements.

MFO GIRO CREDIT LTD

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(In GEL)

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MFO GIRO CREDIT LTD

STATEMENT OF FINANCIAL POSITION

For the year ended 31st December 2018

(In GEL)

	Note	31.12.2018	31.12.2017
Assets			
Fixed and intangible assets	12	1,413,047	1,445,100
Deffered tax asset	11	62,307	-
Loans to customers	13	10,911,559	8,356,910
Other assets	14	49,826	44,476
Financial assets recognized at fair value through profit or loss	15	-	5,037
Cash and cash equivalents	16	2,759,447	2,181,322
Total assets		**15,196,186**	**12,032,845**
Equity and liabilities			
Owner's equity			
Statutory capital	17	500,000	251,083
Retained earnings		3,783,288	3,560,613
		4,283,288	**3,811,696**
Liabilities			
Borrowed funds	18	10,817,103	8,009,382
Financial liabilities recognized at fair value through profit or loss	15	24,908	-
Deffered tax liability	11	-	6,482
Other liabilities	19	26,069	49,786
Tax liability	20	44,818	155,499
		10,912,898	**8,221,149**
		15,196,186	**12,032,845**

The notes set out on pages 9 to 36 form an integral part of these financial statements.

STATEMENT ON CHANGES IN EQUITY

For the year ended 31st December 2018

(In GEL)

	Statutory capital	Retained earnings	Total
Balance at 31st December 2016	**251,083**	**3,072,801**	**3,323,884**
Total comprehensive income for the year	-	718,549	**718,549**
Dividend paid	-	(230,737)	**(230,737)**
Balance at 31st December 2017	**251,083**	**3,560,613**	**3,811,696**
Change in accounting policy - IFRS 9 Financial Instruments (including applicable tax rate - 15%)	-	(88,546)	**(88,546)**
1st January 2018 after change in accounting policy	**251,083**	**3,472,067**	**3,723,150**
Increase in Statutory capital	248,917	-	**248,917**
Total comprehensive income for the year	-	573,239	**573,239**
Dividend paid	-	(262,018)	**(262,018)**
Balance at 31st December 2018	**500,000**	**3,783,288**	**4,283,288**

The notes set out on pages 9 to 36 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31st December 2018

(In GEL)

	Note	2018	2017
Cash flows from operating activities			
Profit before taxation		**646,220**	**873,783**
Adjustments:			
Loan impairment allowance	13	176,927	55,546
Depreciation and Amortization charge	12	112,865	102,215
Interest expense	6	1,141,235	980,982
Interest income	5	(2,442,011)	(1,891,032)
Net gain/(loss) from financial assets at fair value through profit and loss	15	82,373	(5,037)
Foreign exchange gain/(loss), net	10	95,229	(172,454)
Cash flows before changes in working capital		**(187,162)**	**(55,997)**
Increase of loans to customers		(2,519,791)	(1,206,669)
Increase of other assets		(5,350)	(8,863)
(Decrease)/increase of tax and other liabilities		(43,019)	34,398
Cash used in operating activities		**(2,755,322)**	**(1,237,131)**
Interest received		2,185,296	2,109,360
Interest paid	18	(1,121,069)	(877,678)
Dividend paid		-	(230,737)
Profit tax paid		(230,624)	(25,645)
Net cash used in operating activities		**(1,921,719)**	**(261,831)**
Investing activities			
Purchase of fixed assets		(80,812)	(120,064)
Paid amounts on currency swap contracts		(52,427)	-
Net cash used in investing activities		**(133,239)**	**(120,064)**
Financing activities			
Payment of borrowed funds	18	(4,669,410)	(6,462,034)
Receipt of borrowed funds	18	7,297,583	8,100,307
Net cash flows from financing activities		**2,628,173**	**1,638,273**
Net Increase in cash and cash equivalents		**573,215**	**1,256,378**
Cash and cash equivalents at the beginning of year	16	**2,181,322**	**888,668**
Effect of changes in foreign exchange rate on cash and cash equivalents	10	4,910	36,276
Cash and cash equivalents at the end of year	16	**2,759,447**	**2,181,322**

The notes set out on pages 9 to 36 form an integral part of these financial statements.

1. General information

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

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

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

2. Basis of preparation

Basis of preparation

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

The accounting policy used is in compliance with all the standards that are effective at the end of the reporting period - December 31, 2018.

The Company does not use different versions of international financial reporting standards that have been effective at earlier dates, and the mandatory application of their amendments came into force during the reporting year.

These financial statements have been prepared on the assumption that the Company is a going concern and will continue its operations for the foreseeable future. The management and shareholder have the intention to further develop the business of the Company in Georgia. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. The management believes that the going concern assumption is appropriate for the Company.

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

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

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the most appropriate application in applying the accounting policies. The estimations are reviewed periodically. The adjustments that led to changes in accounting estimates belong to the financial results of the period when these changes took place. The areas where significant judgements and estimates have been made in preparing the financial statements are disclosed in Note 3.

Adoption of new or revised standards and interpretations

a) New standards, interpretations and amendments effective from 1 January 2018

New standards, interpretations and amendments effective from 1 January 2018 that had a significant effect on the Company's financial statements are:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers.

Significant effect on the Company's financial statements was caused by adopting of IFRS 9. Changes of adoption of IFRS 9 are reflected on 1 January 2018. Details for impact of IFRS 9 Financial Instruments on transition date are disclosed in the Note 13.

There was no material impact on the Company's financial statements by adopting of IFRS 15, so the Company has not made any adjustments related to adoption of IFRS 15.

2. Basis of preparation (Continued)

b) New standards, interpretations and amendments not yet effective

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019, and which the Company has not early adopted. This listing of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date, therefore intends to adopt those standards when they become effective:

IFRS 16 "Leases"

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

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

The Company is currently assessing the possible impact of the new standards on its financial statements. This standard is effective for annual periods beginning on or after 1 January 2019.

3. Critical accounting estimates and judgements

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

• **Allowance for impairment of loans to customers -** The Company operates with „expected credit loss'' (ECL) model. This requires considerable judgment as to how changes in economic factors affect ECLs, which is determined on a probability-weighted basis. Under IFRS 9, loss allowances will be measured on either of the following bases: a) 12-month ECLs - these are ECLs that result from possible default events within the 12 months after the reporting date; b) Lifetime ECLs - these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition, but 12-month ECL measurement applies if it has not. A Company may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. Details about impairment of loans to customers are disclosed in Note 13. Based on uncertainty related to the future period the actual results may significantly vary from results stated in the financial statements.

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

3. Critical accounting estimates and judgements (Continued)

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

• **Court disputes** - By the end of each accounting year, the Company makes a judgement about current court disputes, to measure the relevance of provision in the financial statements. In the measurement process, management considers current progress of litigation, legislative requirements, probable future loss, opinions of lawyers and other relevant specialists and practical results of such type of disputes. The actual consequences of future periods can vary greatly from the results recorded in the financial statements.

• **Determination of collateral value -** Management monitors market value of collateral on a regular basis. Management uses its experienced judgment to adjust the fair value to reflect current circumstances. The amount and type of collateral depends on the assessment of credit risk of the counterparty.

4. Risk management – Financial Instruments

Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and daily monitoring, subject to risk limits and other controls.

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

- Credit risk
- Liquidity risk
- Interest rate risk
- Currency risk

The Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The main financial liabilities of the Company include borrowed funds and other payables. The main goal of these financial instruments is the financial support of the Company. The Company has financial assets such as loans to customers, cash and cash equivalents, financial assets at fair value through profit and loss and other financial assets.

Principal financial instruments as at 31 December 2018 and 2017 can be presented as follows:

	31.12.2018	**31.12.2017**
Financial assets		
Loans to customers	10,911,559	8,356,910
Cash and cash equivalents	2,759,447	2,181,322
Financial insruments at fair value through profit and loss	-	5,037
Other financial assets	28,774	18,353
	13,699,780	**10,561,622**
Financial liabilities		
Borrowed funds	10,817,103	8,009,382
Financial insruments at fair value through profit and loss	24,908	-
Other liabilities	26,069	49,786
	10,868,080	**8,059,168**

4. Risk management – Financial Instruments (Continued)

Fair value measurement

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

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

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

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

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

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

a) Financial intruments at fair value through profit and loss

Financial intruments at fair value through profit and loss are those that the accounting standards require measurement at fair value in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised at 31st December 2018 and 2017 represents Level 2.

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

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

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

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

Fair value assessment used for financial instruments accounted at amortized cost – loans to customers, other receivables, other payable and borrowed funds was based on level 2 and level 3 hierarchy. The fair values were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

4. Risk management – Financial Instruments (Continued)

Borrowings from banks were discounted at the Company's own incremental borrowing rate. There were no changes in valuation technique for level 3 and level 2 measurements of assets and liabilities not measured at fair values during the year ended 31st December 2018 and 2017. The fair value of cash and cash equivalents is estimated based on Level 1.

Capital management objectives, policies and approach

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

The capital management objectives are:

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

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

The National Bank of Georgia establishes the regulation for determining the minimum amount of capital for microfinance organizations. As of December 31, 2018 and 2017 the Company met the requirements of minimum mandatory capital with an amount of GEL500,000 and GEL250,000, respectively.

Credit risk

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

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

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

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

The company creates an impairment allowance for loans issued, which represents the best estimates of future losses. The Company does ageing analysis of outstanding loans. Additional information about ageing analysis and credit risk is disclosed in Note 13 and Note 24.

The Company creates impairment allowance of financial assets in accordance with IFRS 9 – „Financial Instruments". See Note 23 for more information.

The carrying amount of financial assets other than cash on hands represents the maximum credit risk.

4. Risk management - Financial Instruments (Continued)

Liquidity risk

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

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

An analysis of the financial liabilities as at 31st December 2018 is presented in the following table:

	Up to 1 year	1 year to 5 years	Total
Financial liabilities			
Interest bearing financial liabilities	8,291,066	2,526,037	**10,817,103**
Financial insruments at fair value through profit and loss	24,908		**24,908**
Other liabilities	26,069	-	**26,069**
	8,342,043	**2,526,037**	**10,868,080**

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

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

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

Market Risk

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

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

Interest Rate Risk

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

Currency risk

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

4. Risk management – Financial Instruments (Continued)

For the year ending 31 December 2018, the Company had concluded currency swap agreement with JSC Bank of Georgia with the nominal value of USD1,300 thousand to hedge USD and GEL COP (Note 15).

For the year ending 31 December 2017, the Company had concluded currency swap agreement with JSC Bank of Georgia with the nominal value of USD500 thousand to hedge USD and GEL COP (Note 15).

The Company's exposure to foreign currency exchange rate risk as at 31st December 2018 is presented in the table below:

	GEL	USD	Other currencies	Total
Financial assets				
Loans to customers	9,171,289	1,740,270	-	**10,911,559**
Cash and cash equivalents	680,409	1,602,775	476,263	**2,759,447**
Other financial assets	28,774	-	-	**28,774**
	9,880,472	**3,343,045**	**476,263**	**13,699,780**
Financial liabilities				
Borrowed funds	6,388,828	4,428,275	-	**10,817,103**
Financial instruments at fair value through profit and loss	-	24,908	-	**24,908**
Other liabilities	26,069	-	-	**26,069**
	6,414,897	**4,453,183**	**-**	**10,868,080**
Open balance sheet position	**3,465,575**	**(1,110,138)**	**476,263**	

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

	GEL	USD	Other currencies	Total
Financial assets				
Loans to customers	4,886,742	3,470,168	-	**8,356,910**
Cash and cash equivalents	469,816	1,384,593	326,913	**2,181,322**
Financial instruments at fair value through profit and loss	-	5,037	-	**5,037**
Other financial assets	18,353	-	-	**18,353**
	5,374,911	**4,859,798**	**326,913**	**10,561,622**
Financial liabilities				
Borrowed funds	4,346,038	3,663,344	-	**8,009,382**
Other liabilities	49,786	-	-	**49,786**
	4,395,824	**3,663,344**	**-**	**8,059,168**
Open balance sheet position	**979,087**	**1,196,454**	**326,913**	

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

4. Risk management - Financial Instruments (Continued)

Impact on net profit and equity based on asset values as at 31st December 2018 and 2017 can be presented as follows:

	31st December 2018		31st December 2017	
Exchange rate sensitivity	**+20%**	**-20%**	**+20%**	**-20%**
USD impact	(222,028)	222,028	239,291	(239,291)
EUR impact	484	(484)	41,022	(41,022)
Other currencies' impact	94,769	(94,769)	24,361	(24,361)
	(126,775)	**126,775**	**304,674**	**(304,674)**

5. Interest income

Interest income can be presented as follows:

	2018	2017
Loans collateralized by precious stones	1,029,276	896,942
Loans collateralized by real estate	689,509	413,991
uncollateralized loans	519,234	411,966
Loans collateralized by vehicles	203,992	168,133
	2,442,011	**1,891,032**

6. Interest expense

Interest expense can be presented as follows:

	2018	2017
Loans from banks	(746,638)	(644,345)
Loans from entities other than banks	(322,232)	(22,407)
Loans from individuals	(72,365)	(314,230)
	(1,141,235)	**(980,982)**

Interest rates on bank borrowings range from 12% to 14%, individuals - 9% to 15%, and legal entities - 12%.

7. Other income

Other income can be presented as follows:

	2018	2017
Gain from currency trading	862,360	492,179
Income from penalties	265,171	325,810
Other	57,859	54,227
	1,185,390	**872,216**

8. Employee benefit expenses

Employee benefit expenses can be presented as follows:

	2018	2017
Salary	(747,222)	(513,849)
Bonuses	(53,348)	(23,109)
	(800,570)	**(536,958)**

9. Other expenses

Other expenses can be presented as follows:

	2018	2017
Rent	(115,128)	(45,264)
Office supply	(112,498)	(95,192)
Professional services*	(108,268)	(22,425)
Advertising and sales expenses	(47,263)	(6,586)
Taxes (other than income tax)	(37,829)	(31,924)
Bank commission fee	(31,020)	(61,590)
Utility	(27,599)	(23,709)
Communication expenses	(20,567)	(12,732)
Penalties and fees	(81)	(59,800)
Other	(71,729)	(32,033)
	(571,982)	**(391,255)**

*For the years ended 31st December 2018 and 2017 fee of audit and other professional services received from audit companies is GEL25,370 and GEL11,000, respectively.

10. Foreign exchange gain/(loss), net

Foreign exchange gain/(loss), net can be presented as follows:

	2018	2017
Cash and cash equivalents	4,910	36,276
Other financial instruments	(100,142)	136,178
	(95,232)	**172,454**

11. Income tax

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

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

	2018	2017
Profit before taxation	**646,220**	**873,783**
Applicable tax rate established by the legislation	15%	15%
Theoretical income tax	**(96,933)**	**(131,067)**
Permanent effect of non-deductible expenses or income recognized for tax purposes	23,952	(24,167)
Income tax expense	**(72,981)**	**(155,234)**

11. Income tax (Continued)

Income tax expense can be presented as follows:

	2018	2017
Current income tax	(126,144)	(169,095)
Deffered income tax	53,163	13,861
	(72,981)	**(155,234)**

The tax effects of the movements in temporary differences recorded at the rate of 15% for the year ended 31st December 2018 are as follows:

	31.12.2017	Change in profit/loss	Change in capital	31.12.2018
Deductible temporary differences				
Borrowed funds	15,442	(5,225)	-	10,217
Loans to customers	(208)	47,014	15,626	62,432
Other assets	-	8,434	-	8,434
Other liabilities	5,624	(5,624)	-	-
Deferred income tax asset, gross	**20,858**	**44,599**	**15,626**	**81,083**
Taxable temporary differences				
Fixed and intangible assets	(27,340)	8,564	-	(18,776)
Deferred income tax liability, gross	**(27,548)**	**8,564**	**-**	**(18,776)**
Deferred income tax asset/(liability), net	**(6,482)**	**53,163**	**15,626**	**62,307**

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

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

Reconciliation of deferred income tax asset/(liability) can be presented as follows:

	2018	2017
At 1st January	(6,482)	(20,343)
Changes due to implementation of IFRS 9	15,626	-
Balance at 1st January after changes due to IFRS 9	9,144	(20,343)
Recognized in profit or loss		
Tax benefit	53,163	13,861
At 31st December	**62,307**	**(6,482)**

12. Fixed and intangible assets

Fixed and intangible assets can be presented as follows:

Historical cost	Buildings	Office equipmen	Vehicles	Other	Total
Balance at 31st December 2016	**1,140,596**	**293,901**	**145,915**	**11,822**	**1,592,234**
Addition	1,866	43,751	73,524	922	**120,063**
Balance at 31st December 2017	**1,142,462**	**337,652**	**219,439**	**12,744**	**1,712,297**
Addition	-	29,776	-	51,036	**80,812**
Balance at 31st December 2018	**1,142,462**	**367,428**	**219,439**	**63,780**	**1,793,109**
Accumulated depreciation					
Balance at 31st December 2016	**(55,078)**	**(85,946)**	**(20,844)**	**(3,114)**	**(164,982)**
Depreciation for the year	(23,330)	(45,462)	(31,348)	(2,075)	**(102,215)**
Balance at 31st December 2017	**(78,408)**	**(131,408)**	**(52,192)**	**(5,189)**	**(267,197)**
Depreciation for the year	(23,410)	(37,381)	(31,456)	(20,618)	**(112,865)**
Balance at 31st December 2018	**(101,818)**	**(168,789)**	**(83,648)**	**(25,807)**	**(380,062)**
Net book value					
Balance at 31st December 2017	**1,064,054**	**206,244**	**167,247**	**7,555**	**1,445,100**
Balance at 31st December 2018	**1,040,644**	**198,639**	**135,791**	**37,973**	**1,413,047**

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

Net book value of intangible assets as at 31st December 2018 and 2017 is GEL4,009 and GEL5,158, respectively.

13. Loans to customers

Loans to customers can be presented as follows:

	31.12.2018	**31.12.2017**
Principal	11,118,188	8,399,995
Interest	214,500	139,553
Less: Imparment allowance	(421,129)	(182,638)
	10,911,559	**8,356,910**

13. Loans to customers (Continued)

Credit Quality Movement as at 31st December 2018 by the types of loans issued can be presented as follows:

	Gross amount	Stage 1	Stage 2	Stage 3	Total ECL	Net amount	ECL %
Loans collateralized by precious stones	5,521,777	(100,854)	(32,625)	(125,209)	(258,687)	5,263,089	4.68%
Loans collateralized by real estate	3,762,729	(9,136)	(1,679)	(29,169)	(39,984)	3,722,745	1.06%
Loans without collateral	1,317,863	(1,300)	(3,704)	(114,295)	(119,299)	1,198,564	9.05%
Loans collateralized by vehicles	730,319	(3,158)	-	-	(3,158)	727,161	0.43%
	11,332,688	**(114,448)**	**(38,008)**	**(268,673)**	**(421,129)**	**10,911,559**	**3.81%**

Analysis by credit quality of outstanding loans collateralized by precious stones at 31st December 2018 is as follows

	Gross amount	ECL	Net amount	ECL %
-no overdue	4,617,981	(78,264)	4,539,717	1.69%
-overdue less than 31 days	342,772	(22,590)	320,182	6.59%
-overdue 31-60 days	100,771	(13,780)	86,991	13.67%
-overdue 61-90 days	87,224	(18,845)	68,379	21.61%
-overdue more than 90 days	373,029	(125,209)	247,820	33.57%
	5,521,777	**(258,688)**	**5,263,089**	**4.68%**

Analysis by credit quality of outstanding loans collateralized by real estate at 31st December 2018 is as follows

	Gross amount	ECL	Net amount	ECL %
-no overdue	3,391,314	(6,704)	3,384,610	0.20%
-overdue less than 31 days	249,419	(2,431)	246,988	0.97%
-overdue 31-60 days	16,098	(386)	15,712	2.40%
-overdue 61-90 days	17,776	(1,293)	16,483	7.27%
-overdue more than 90 days	88,122	(29,170)	58,952	33.10%
	3,762,729	**(39,984)**	**3,722,745**	**1.06%**

13. Loans to customers (Continued)

Analysis by credit quality of outstanding uncollateralized loans at 31st December 2018 is as follows:

	Gross amount	ECL	Net amount	ECL %
-no overdue	1,061,986	(984)	1,061,002	0.09%
-overdue less than 31 days	35,530	(315)	35,215	0.89%
-overdue 31-60 days	26,614	(1,320)	25,294	4.96%
-overdue 61-90 days	17,219	(2,385)	14,834	13.85%
-overdue more than 90 days	176,514	(114,295)	62,219	64.75%
	1,317,863	**(119,299)**	**1,198,564**	**9.05%**

Analysis by credit quality of outstanding loans collateralized by vehicles at 31st December 2018 is as follows:

	Gross amount	ECL	Net amount	ECL %
-no overdue	719,560	(3,038)	716,522	0.42%
-overdue less than 31 days	10,759	(120)	10,639	1.12%
	730,319	**(3,158)**	**727,161**	**0.43%**

Information about outstanding collateralized and uncollateralized loans at 31st December 2018 is as follows:

	Gross amount	ECL	Net amount	ECL %
Collateralized loans	10,014,825	(301,830)	9,712,995	3.01%
Uncollateralized loans	1,317,863	(119,299)	1,198,564	9.05%
	11,332,688	**(421,129)**	**10,911,559**	**3.72%**

13. Loans to customers (Continued)

Movements in loan impairment allowance for the year ended 31st December 2018 can be presented as follows:

	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	Total
Balance at 1st January 2018 by IAS 39	-	-	-	**182,638**
Changes due to implementation IFRS 9	-	-	-	**104,172**
Balance at 1st January 2018 by IFRS 9	**86,459**	**33,456**	**166,895**	**286,810**
New loans issued	94,761	-	-	**94,761**
Transfer to Stage 1	31,242	(22,555)	(8,687)	**-**
Transfer to Stage 2	(222,536)	229,993	(7,457)	**-**
Transfer to Stage 3	-	(410,643)	410,643	**-**
Repaid loans	(79,120)	(26,461)	(153,925)	**(259,506)**
Write off for the year	-	-	(42,608)	**(42,608)**
Changes due to change in credit-risk	203,640	234,219	(96,187)	**341,672**
Balance at 31st December 2018	**114,446**	**38,009**	**268,674**	**421,129**

Movements in gross amount of issued loans for the year ended 31st December 2018 can be presented as follows:

	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	Total
Balance at 1st January 2018 by IAS 39	-	-	-	**8,539,548**
Balance at 1st January 2018 by IFRS 9	**7,894,665**	**250,315**	**394,568**	**8,539,548**
New loans issued	15,795,364	-	-	**15,795,364**
Transfer to Stage 1	1,407,980	(862,784)	(545,196)	**-**
Transfer to Stage 2	(1,957,893)	1,994,417	(36,524)	**-**
Transfer to Stage 3	-	(891,093)	891,093	**-**
Repaid loans	(12,710,795)	(225,153)	(23,668)	**(12,959,616)**
Write off for the year	-	-	(42,608)	**(42,608)**
Balance at 31st December 2018	**10,429,321**	**265,702**	**637,665**	**11,332,688**

13. Loans to customers (Continued)

The primary factors that the Company considers in impairment of loans the probability of non-payment of cash flows, which are estimated based on past experience and expected credit loss due to the risk of default. Detailed information about impairment policy is disclosed in the Note 24.

Information related to loans to customers before adopting IFRS 9 are presented bellow.

Portfolio distribution by loan type is as follows:

	31.12.2017
Loans collateralized by precious stones	4,865,872
Loans collateralized by real estate	1,799,707
Loans collateralized by vehicles	439,030
Loans without collateral	1,434,939
Loans to customers, gross	**8,539,548**
Less: impairment allowance	(182,638)
Loans to customers, net	**8,356,910**

Movements in the loan impairment allowance for the year ended December 31, 2017:

	2017
At 1st January	**(213,632)**
Increase in impairment allowance	(55,546)
Bad debt expenses	86,540
At 31 December	**(182,638)**

Allocation of impairment allowance by types of loans issued can be presented as follows:

	31.12.2017
Loans collateralized by precious stones	(83,007)
Loans without collateral	(60,582)
Loans collateralized by real estate	(34,757)
Loans collateralized by vehicles	(4,292)
Total	**(182,638)**

The credit quality of loans to customers can be presented as follows:

	31.12.2017
no overdue	7,024,586
overdue less than 30 days	359,960
overdue 30-59 days	164,940
overdue 60-119 days	251,690
overdue more than 120 days	738,372
Loans to customers, gross	**8,539,548**
Less: impairment allowance	(182,638)
Loans to customers, net	**8,356,910**

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

Additional information about loans to customers is disclosed in Note 4.

14. Other assets

Other assets can be presented as follows:

	31.12.2018	31.12.2017
Financial assets		
Other receivables	28,774	18,353
	28,774	**18,353**
Non-financial assets		
Paid advances	20,364	25,563
Inventory	688	560
	21,052	**26,123**
	49,826	**44,476**

Additional information about other assets is disclosed in Note 4.

15. Financial instruments at fair value through profit and loss

Financial instruments at fair value through profit and loss represents foreign currency contracts, particularly, the Company uses currency swap contracts (Sell Georgian Lari for US Dollar) to manage currency risks. Manurity of mentioned contacts is up to a year. Unrealized gain or losses of the contracts that have not yet expired, are recognized in profit or loss, and accounted at fair value in financial instruments at fair value through profit and loss. Net gain/(loss) from the swap contracts for the year ended 31st December 2018 and 2017 is GEL82,373 and GEL5,037.

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

16. Cash and cash equivalents

Cash and cash equivalents can be presented as follows:

	31.12.2018	31.12.2017
Petty cash	1,381,343	1,580,573
Cash on bank accounts	1,378,104	600,749
	2,759,447	**2,181,322**

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

Additional information about cash and cash equivalents is disclosed in Note 4.

17. Statutory capital

Based on the decision of the shareholder on August 10, 2018, the statutory capital was increased by GEL248,917; hence the statutory capital of the Company amounted to GEL500,000. Capital contribution was made in cash.

18. Borrowed funds

Borrowed funds can be presented as follows:

	31.12.2018	31.12.2017
Principal	10,687,502	7,885,946
Interest	129,601	123,436
	10,817,103	**8,009,382**

Long-term borrowed funds can be presented as follows:

	31.12.2018	31.12.2017
Loans from banks	652,417	147,406
Loans from individuals	1,873,620	-
Loans from legal entities	-	388,830
	2,526,037	**536,236**

Short-term borrowed funds can be presented as follows:

	31.12.2018	31.12.2017
Loans from banks	5,686,071	4,626,592
Loans from individuals	2,195,717	2,442,640
Loans from legal entities	409,278	403,914
	8,291,066	**7,473,146**

Reconcilation of received loans as at 31st December 2018 can be presented as follows:

	Current	Long-term	Total
At January 1, 2018	**7,473,146**	**536,236**	**8,009,382**
Cash Flows	(1,103,129)	2,610,233	**1,507,104**
Non-cash flows			
Effects of foreign exchange	(100,635)	260,016	**159,381**
Borrowings classified as non-current at December 31, 2017 becoming current during 2018	880,448	(880,448)	**-**
Interest accruing in the year	1,141,236	-	**1,141,236**
At December 31, 2018	**8,291,066**	**2,526,037**	**10,817,103**

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

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

Information about collaterals of borrowed funds from banks is presented in Note 12. Borrowed funds from individuals and legal entities are not collaterized.

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

Additional information about borrowed funds is disclosed in Note 4.

19. Other liabilities

Other liabilities as at 31st December 2018 and 2017 represent payables to suppliers with an amounts of GEL26,069 and GEL49,786, respectively.

Fair value of other liabilities does not differ from their book value due to their short-term nature.

Additional information about other liabilities is disclosed in Note 4.

20. Tax liability

According to the amendment to the tax legislation of Georgia, from January 1, 2016 taxes are paid on the unified treasury code. As a result, the Company's tax assets and liabilities are presented on a net basis in the financial statements prepared as at December 31, 2018 and 2017 with and amount of GEL44,818 and GEL155,499 as tax liability, respectively.

21. Transactions with related parties

Related parties include owners, affiliates and entities under common ownership and control and members of key management personnel. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Details of outstanding balances between the Company and related parties as at 31st December 2018 are disclosed below:

	Shareholder	Key management	Other related party	Financial statement caption
Financial statement caption				
Borrowed funds	1,374,880	1,873,620	158,060	**10,817,103**

Details of outstanding balances between the Company and related parties as at 31st December 2017 are disclosed below:

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

Details of transactions between the Company and related parties for the year ending December 31, 2018 are disclosed below:

	Shareholder	Key management	Other related party	Financial statement caption
Financial statement caption				
Interest expense	(99,635)	(131,920)	(14,259)	**(1,141,235)**
Employee benefit expenses	(30,985)	-	-	**(800,570)**

Details of transactions between the Company and related parties for the year ending December 31, 2017 are disclosed below:

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

22. Commitments and contingencies

Legal proceedings - As at 31st December 2018 and 2017 the Company was not engaged in any material litigation proceedings. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

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

- The microcredit issued by the microfinance organization to the individual borrower shall not exceed GEL100,000 (GEL50,000 was restricted until the amendment);
- The authorized capital of the Microfinance Organization shall not be less than GEL1,000,000 for the registration date (GEL250,000 was restricted until the amendment). Authorized capital for existing microfinance organizations shall be filled by July 1, 2019, with the following scheme:
  - not less than GEL500,000 by September 1, 2018;
  - not less than GEL1,000,000 by July 1, 2019 (Note 23).

Authorized capital should be filled only with cash contributions.

NBG regulations - On 5th July 2018 the president of the National Bank of Georgia has approved regulation on assets classification and the creation of reserves for possible losses by Microfinance Organisations.

The Management states that the Company is in compliance with the requirements of NBG, but this assessment relies on estimates and assumptions and may involve a series of complex judgments about future events and could be differed from the judgments of regulators.

Taxes - Georgian tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Company may be assessed additional taxes, penalties and interest. The Company believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

Operating environment – Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

23. Post balance sheet events

There have been following subsequent events that need to be disclosed in the financial statements:

In order to meet the legal requirements, on July 23, 2019, the shareholder of the Company increased the statutory capital by GEL 500,000, hence the statutory capital of the Company amounted to GEL1,000,000. Capital contribution was made in cash.

24. Summary of significant accounting policies

24.1 Foreign currency translation

a) Functional and presentation currency

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

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

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

At 31st December 2018 and 2017 the exchange rates used for translating foreign currency balances were:

	31.12.2018	**31.12.2017**
GEL/1 US Dollar	2.6766	2.5922
GEL/1 EURO	3.0701	3.1044

24.2 Financial Instruments

The Company has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in accounting policies and adjustments to the amounts previously recognized in the financial statements. The Company did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and are disclosed in Note 11 and Note 13. Consequently, for notes, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. Accounting policies under IAS 39 relating to 2017 financial year can be found in the previous year's financial statements.

The adoption of IFRS 9 has resulted in Changes in the Company's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

Financial assets and financial liabilities are recognised in the Company's financial position when the Company becomes a party to the contractual provisions of the instrument.

FINANCIAL ASSETS

The Company recognizes following categories of financial assets: a financial asset measured at amortized costs, financial asset measured at fair value through profit or loss, financial asset measured at fair value through other comprehensive income. The Company's management assessed which business model is relevant to Company's financial assets and classified them as follows: a financial asset measured at amortized costs and financial asset measured at fair value through profit or loss.

As at 31st December 2018 and 2017 the Company's financial assets are presented by loans to customers, financial asset measured at fair value through profit or loss and cash and cash equivalents in the financial statements. Cash and cash equivalents includes cash on hand and cash on bank accounts.

24. Summary of significant accounting policies (Continued)

Financial assets at amortized cost

These assets originate when goods and services are delivered to customer. They also include those financial assets which give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. On initial recognition they are recognized at fair value plus transaction cost directly related to acquisition and emission of asset and subsequently are measured at amortized cost using the effective interest rate and reduced by impairment loss.

Financial asset measured at fair value through profit or loss

As part of its general business activity the Company concludes derivative contracts - currency swap contracts to hedge currency risks. Those financial instruments are initially recognized according to initial recognition policy and subsequently are measured at fair value. All derivative contracts are recognized as assets or liabilities when their values are positive and negative, respectively. The Company hold open swap contracts as at 31st December 2018 and 2017. The profit and loss from these financial instruments are recognized in the statement of comprehensive income (Note 15).

Business model assessment

There are three business models available under IFRS 9:

- Hold to collect: It is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest form the counterparty
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change or to hold the assets for liquidity purposes
- Other: all those models that do not meet the 'hold to collect' or 'hold to collect and sell' qualifying criteria

The assessment of business model requires judgment based on facts and circumstances at the date of the assessment. The business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios per instrument type.

The Company has considered quantitative and qualitative factors such as how the performance of the business model and the financial assets held within that business model are evaluated; the risks that affect the performance of the business model and, in particular, the way those risks are managed; and how managers of the business are compensated.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL, because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

If a financial asset is held in either to a Hold to Collect or a Hold to Collect and Sell business model, then assessment to determine whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding at initial recognition is required to determine the classification. The SPPI test is performed on an individual instrument basis.

Contractual cash flows, that represent solely payments of principal and Interest on the principal amount outstanding, are consistent with basic lending arrangement. Interest is consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks (e.g. liquidity risk) and costs (e.g. administrative costs) associated with holding the financial asset for a particular period of time, and a profit margin that is consistent with a basic lending arrangement.

In assessing whether the contractual cash flows are SPPI, the Company considers whether the contractual terms of the financial asset contain a term that could change the timing or amount of contractual cash flows arising over the life of the instrument which could affect whether the instrument is considered to meet the SPPI test.

If the SPPI test is failed, such financial assets are measured at FVTPL with interest earned recognised in other interest income.

24. Summary of significant accounting policies (Continued)

Reclassification

Financial assets are not reclassified after their initial recognition, except the cases when the Company's business model is changed. If the business model, under which the Company has the financial assets, is changed, then the appropriate financial assets are reclassified. The requirements for the classification and valuation of financial assets for new categories are used prospectively beginning from the first day of next accounting period.

Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Company's accounting for loan loss impairment by replacing IAS 39's incurred loss approach with forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to record ECL on all of its debt financial assets at amortised cost or FVOCI.

The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

The Company collectively assesses impairment for loan portfiolio. Collectively assessesed loans are grouped on the basis of shared credit risk characteristics, collateral type and product type.

Three stage approach

IFRS 9 introduces a three stage approach to impairment for financial instruments that are performing at the date of origination or purchase. This approach is summarised as follows:

Stage 1: The Company recognizes a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition. For those financial assets with a remaining maturity of less than 12 months, a PD is used that corresponds to the remaining maturity.

Stage 2: The Company recognizes a credit loss allowance at an amount equal to lifetime expected credit losses for those financial instruments which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default that represents the probability of default occurring over the remaining lifetime of the financial instrument. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1. Financial instruments in stage 2 are not yet deemed to be credit-impaired

Stage 3: If the financial instrument is credit-impaired, it is then moved to stage 3. The Company recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a probability of default (PD) of 100 % for those financial instruments that are credit-impaired.

Allocating issued loans on stages based on overdue days are as follows:

Collateral type	Stage 1	Stage 2	Stage 3
Real estate	0-30	31-90	>90
Vehicles	0-30	31-90	>90
Precious stones	0-30	31-90	>90
Uncollateralized	0-30	31-90	>90

The Company automatically assigns stage 1 to the loan when it is issued. The loan is transferred to stage 2 if one of the following events occur:

- 31 days past due
- Initiation of legal proceedings on collateral by third party
- Loss of job by the borrower
- Liquidation of a large part of the customer's business

24. Summary of significant accounting policies (Continued)

The loan is transferred from stage 2 to stage 1 if following events occur:

- Overdue days are between 0 and 30
- Improvement of the circumstances for which the loan was moved to stage 2

Defaulted loans are immediately moved to stage 3 and aren't subjected to transferring to the previous stages.

Definition of default

Default status is applied to the loan if one of the following events occur:

a) 91 days past due;
b) Destruction or disappearance of collateral;
c) Bankruptcy or liquidation of the business (relevant in case of business loans).

The definition of default is in line with relevant regulations taking into account the 90-days past due cap presumption IFRS 9.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information.

The Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

Forward-looking information

Impairment rates are based on the credit impairment experience of the Company. Historical expected impairment rate will be adjusted by considering current and future macroeconomic factors affecting the Company's customers. The Company considers the Gross Domestic Product and iIflation Rate as the main macroeconomic factors for the country where it operates.

The Company uses last 4 years statistics (in case of existence) updated annually to estimate correlation between default rates and macroeconomic variables (GDP growth, inflation) and when calculating expected credit loss, specific macroeconomic forecast scenarios are taken into account if only correlation with inflation and GDP growth is more than 0.5 and less than -0.5, accordingly.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above. EAD is updated every time the loan loss aalowance is calculated.

Probability of default (PD)

PD estimates are estimates at a certain date, which are calculated based on statistical data. PDs are estimated considering the contractual maturities of exposures including prepayment ratio.

The Company uses last 3 years statistics in case of existence to determine probability of default. This figure is calculated separately for all segments by applying migration matrix to the loan portfolio, which shows the probability that the loan portfolio will move from one bucket to another.

24. Summary of significant accounting policies (Continued)

Migration matrix is divided into following buckets:

Days overdue	Stage
Closed	
0	I
1-30	I
31-60	II
61-90	II
>90	III

The Company has a small number of restructured loans (the terms of the agreement are changed between the Company and the borrower and a new schedule is being built for the existing loan), so the restructuring status is not taken into account in the migration matrix.

In case of default, default probability of 100% is assigned to the loan.

Loss given default (LGD)

LGD is is used to determine the amount of losses that may arise in case of default. In order to calculate loss given default, the Company uses loan amounts that were defaulted in the past and related cash inflows from default moment till reporting date.

Cash inflows are discounted by the weighted average effective interest rate that must not exceed the limits set by the legislation. Loss given default is calculated separately for all segments.

Exposure at default (EAD)

Exposure of default (EAD) represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial asset. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals discounted at the EIR, that must not exceed the limits set by the legislation.

EAD is calculated separately for all segments and is used to determine the amount of portfolio that may be subjected to credit risk at the moment of default. This figure is measured from outstanding loan amount considering expected changes and assuming that default occurs in the mid-year. Expected changes are the scheduled principal repayments till the forecasted overdue date and interest accrued from overdue date till the date when the loan becomes default.

Interest Income Recognition

For financial instruments in Stage 1 and Stage 2, the Company calculates interest income by applying the Effective Interest Rate (EIR) to the gross carrying amount. Interest income for financial assets in Stage 3 is calculated by applying the EIR to the amortised cost (i.e. the gross carrying amount less credit loss allowance). For financial instruments classified as purchased or originated credit-impaired only, interest income is calculated by applying a credit adjusted EIR to the amortised cost of these purchased or originated credit-impaired assets. Interest income is recognized in the statement of comprehensive income.

The amount of impairment allowance is the difference between the discounted value of future cash flows related to impaired receivables and their carrying amount. Allowance for impairment are recorded in a separate allowance account with the loss being recognized in the statement of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for financial assets and the amount of the loss is recognised in profit or loss.

Impairment of cash and cash equivalents

The Company has estimated the risk of credit losses on cash and cash equivalents as immaterial due to their rapid liquidity. Consequently, the Company does not recognize impairment for above-mentioned assets in accordance with IFRS 9.

24. Summary of significant accounting policies (Continued)

Derecognition of financial assets

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

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired: fair value through profit or loss and other financial liabilities. Other financial liabilities include borrowed funds and other liabilities as of 31st December 2018 and 2017. Financial liabilities recognized at fair value through profit or loss includes derivative liabilities derived from currency swap contracts.

Other financial liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method which ensures accrual of interest on the carrying amount of financial liability at constant rate. Interest expenses for any financial liability include the initial transaction costs and any additional charges for the redemption of the obligation.

Derecognition of financial liabilities

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

Offset

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

24.3 Recognition of finance expense

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

24.4 Property and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

24. Summary of significant accounting policies (Continued)

Property and equipment are stated at cost, less accumulated depreciation and allowance for impairment, where required. Depreciation of an asset begins when it is available for use. Depreciation is accrued to the group of assets over their useful lives. The Company uses straight-line method for depreciation. Depreciation is charged to the statement of profit or loss.

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

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

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

24.5 Impairment of tangible and intangible assets other than Goodwill

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

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

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

24.6 Taxation

Current income tax

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

24. Summary of significant accounting policies (Continued)

Deferred tax

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

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

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

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

Taxes other than income tax

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

24.7 Recognition of other expenses

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

24.8 Employee benefit expenses

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

24.9 Operating Lease

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

The Company as lessee

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

24.10 Statutory Capital

The amount of Company’s authorised statutory capital is defined by the Charter. The changes in the statutory capital (changes in statutory capital, ownership, etc.) shall be made only based on the decision of the Company’s shareholders. The authorised capital is recognised as statutory capital to the extent that it was contributed by the owners. Statutory capital is recognized at the fair value of the contribution.

24. Summary of significant accounting policies (Continued)

24.11 Events after the reporting period

Events after the reporting period and events before the date of financial statements authorization for issue that provide additional information about the Company's financial position. Events after the reporting period that do not affect the financial position of the Company at the balance sheet date are disclosed in the notes to the financial statements when material.

24.12 Provisions, contingent liabilities and contingent assets

Contingent liabilities - Contingent liabilities are not reflected in the financial statements, except for the cases when the outflow of economic benefits is likely to origin and the amount of such liabilities can be reliably measured. The information on contingent liabilities is disclosed in the Notes to the financial statements with the exception of cases, when the outflow of economic benefits is unlikely.

Contingent assets - Contingent assets are not reflected in the financial statements, but the information on them is disclosed when inflow of economic benefits is possible. If economic benefits are sure to occur, an asset and related income are recognized in the financial statements for the period, when the evaluation change occurred.

Provision - A provision is a liability of uncertain timing or amount. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.