JSC MICROFINANCE ORGANIZATION

GEORGIAN CREDIT

Financial Statements

Together with the Independent
Auditors' Report

For the year ended 31 December 2018

CONTENT:

INDEPENDENT AUDITORS' REPORT 3

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME 5
STATEMENT OF FINANCIAL POSITION 6
STATEMENT ON CHANGES IN EQUITY 7
STATEMENT OF CASH FLOWS 8

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION 9
2. BASIS OF PREPARATION 9
3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS 11
4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT 12
5. NET INTEREST INCOME 16
6. PROVISION FOR LOAN IMPAIRMENT 17
7. FEE AND COMMISSION INCOME 18
8. ADMINISTRATIVE AND OTHER OPERATING EXPENSES 18
9. INCOME TAX BENEFIT (EXPENSE) 19
10. CASH AND CASH EQUIVALENTS 19
11. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS 19
12. LOANS TO CUSTOMERS 20
13. OTHER ASSETS 23
14. INVESTMENT PROPERTY 23
15. PROPERTY AND EQUIPMENT 24
16. INTANGIBLE ASSETS 25
17. DEFERRED TAX ASSET 25
18. BORROWINGS 27
19. SUBORDINATED BORROWINGS 28
20. OTHER LIABILITIES 29
21. SHARE CAPITAL AND SHARE PREMIUM 29
22. CONTINGENCIES AND COMMITMENTS 29
23. TRANSACTIONS WITH RELATED PARTIES 31
24. EVENTS AFTER THE REPORTING PERIOD 32
25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 32

BDO

Tel: +995 32 2545 845
Fax: +995 32 2188 188
www.bdo.ge

2 Tarkhnishvili street
Vere Business Center
0179 Tbilisi
Georgia

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of **JSC Microfinance Organization Georgian Credit**

Opinion

We have audited the financial statements of JSC Microfinance Organization Georgian Credit (hereinafter - the Company), which comprise the statement of financial position as at 31 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 31 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the financial statements, which indicates that the Company has financial as well as non-financial covenants regarding the borrowings from non-resident financial institutions. As at 31 December 2018 the Company was in breach for some covenants for majority of these financial institutions mostly as a result of IFRS 9 Financial Instruments implementation. In case of breach, these financial institutions have a right to demand all of the principal as well as accrued interest from the Company. As a result, the Company classifies these borrowings as current.

As stated in Note 2 these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

BDO LLC, a Georgian Limited Liability Company, is a member of BDO International Limited, a UK Company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO

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, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Ivane Zhuzhunashvili (Registration number **SARAS-A-720718)**

Engagement Partner

Tbilisi, Georgia

18 July 2019

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

(In GEL)

	Note	2018	2017
Interest income	5	12,574,289	8,823,798
Interest expense	5	(6,198,097)	(4,206,468)
Net interest income		**6,376,192**	**4,617,330**
Provision for loan impairment	6	(1,395,021)	(312,551)
Net interest income after provision for loan impairment		**4,981,171**	**4,304,779**
Fee and commission income	7	524,826	578,735
Net gain on fair value measurement of derivative financial instruments		-	56,693
Staff costs		(3,607,195)	(2,651,414)
General and administrative expenses	8	(2,159,655)	(1,896,200)
Other income, net		(56,104)	42,227
Gain (loss) on revaluation and initial recognition of investment properties	14	128,516	(30,755)
Loss from exchange rate differences, net		(43,882)	(117,267)
Profit (loss) before income tax		**(232,323)**	**286,798**
Income tax benefit (expense)	9	61,293	(81,784)
Net profit (loss) for the year		**(171,030)**	**205,014**

Financial Statements for the year ended 31 December 2018 were approved on behalf of Management on 18 July 2019 by:

Director ______________ G. Naskidashvili

Financial Director ______________ I. Khorava

Notes on pages 9-42 are the integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

(In GEL)

	Note	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	10	4,461,782	3,201,345
Financial instruments at fair value through profit or loss	11	67,870	907,721
Loans to customers	12	39,964,986	35,265,472
Other assets	13	354,949	590,772
Investment property	14	2,444,057	2,425,224
Property and equipment	15	523,694	772,593
Intangible assets	16	274,052	121,506
Deferred tax asset	17	560,512	121,020
Total assets		**48,651,902**	**43,405,653**
Liabilities			
Borrowings	18	41,278,859	36,245,240
Subordinated borrowings	19	3,681,705	1,957,403
Other liabilities	20	209,867	285,794
Total liabilities		**45,170,431**	**38,488,437**
Equity			
Share capital	21	1,136,346	1,110,546
Share premium	21	2,493,750	2,287,350
Retained earnings (accumulated loss)		(148,625)	1,519,320
Total equity		**3,481,471**	**4,917,216**
Total liabilities and equity		**48,651,902**	**43,405,653**

Notes on pages 9-42 are the integral part of these financial statements.

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT ON CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

(In GEL)

	Share capital	Share premium	Retained earnings (Accumulated loss)	Total
Balance at 31 December 2016	**1,010,546**	**1,487,350**	**1,314,306**	**3,812,202**
Issue of shares	100,000	800,000	-	900,000
Net profit for the year	-	-	205,014	205,014
Balance at 31 December 2017	**1,110,546**	**2,287,350**	**1,519,320**	**4,917,216**
Change in accounting policy - IFRS 9 Financial Instruments (net of tax, 15%)	-	-	(1,496,915)	**(1,496,915)**
1 January 2018 after change in accounting policy	**1,110,546**	**2,287,350**	**22,405**	**3,420,301**
Issue of share	25,800	206,400	-	**232,200**
Net loss for the year	-	-	(171,030)	**(171,030)**
Balance at 31 December 2018	**1,136,346**	**2,493,750**	**(148,625)**	**3,481,471**

Notes on pages 9-42 are the integral part of these financial statements.

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

(In GEL)

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**(232,323)**	**286,798**
Adjustments for:			
Provision for loan impairment	6	1,395,021	312,551
Depreciation and amortization		338,774	285,460
Foreign exchange translation differences		43,882	117,267
Net gain on financial instruments at fair value through profit or loss		-	(56,693)
(Gain)/loss on revaluation and initial recognition of investment properties	14	(128,516)	30,755
Interest income	5	(12,574,289)	(8,823,798)
Interest expense	5	6,198,097	4,206,468
Loss from disposal of fixed assets and intangible assets		7,433	30,823
Cash outflow from operating activities before changes in operating assets and liabilities		**(4,951,921)**	**(3,610,369)**
Decrease/(increase) in operating assets:			
Loans to customers		(7,742,388)	(5,826,488)
Other assets		236,592	(217,668)
Financial instruments at fair value through profit or loss		839,851	262,282
Increase/(decrease) in operating liabilities:			
Other liabilities		(77,238)	291,213
Cash outflow from operating activities before interest and taxation		**(11,695,104)**	**(9,101,030)**
Interest paid	19	(6,100,106)	(3,325,329)
Interest received		12,591,138	8,001,463
Income tax paid		(119,524)	-
Net cash outflow from operating activities		**(5,323,596)**	**(4,424,896)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(69,698)	(103,517)
Purchase of investment properties		(136,317)	(131,731)
Proceeds from sale of investment property		246,000	4,980
Purchase of intangible assets		(180,156)	(3,577)
Net cash outflow from investing activities		**(140,171)**	**(233,845)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Received borrowings, net	19	5,204,534	6,289,542
Proceeds from share issue		232,200	900,000
Net cash inflow from financing activities		**5,436,734**	**7,189,542**
Net increase/(Decrease) in cash and cash equivalents		**(27,033)**	**2,530,801**
Cash and cash equivalents at the beginning of the period		**3,201,345**	**1,068,785**
Effect of exchange rate fluctuations on the cash and cash equivalents held in foreign currencies		1,287,470	(398,241)
Cash and cash equivalents at the end of the year		4,461,782	3,201,345

Notes on pages 9-42 are the integral part of these financial statements.

1. GENERAL INFORMATION

Microfinance Organisation Georgian Credit (hereinafter - the Company) is a Joint Stock Company which was established on 12 September 2006 in Tbilisi, Georgia, in accordance with the Georgian legislation. The Company is registered by Tbilisi Tax Inspection Department, under identification number 206238800.

The Company conducts its business under the Law on Microfinance Activity and is supervised by the National Bank of Georgia ("NBG").

The main business activity of the Company is micro lending (Up to GEL100,000, from end of December 2017). The Company aspires to become one of the leading micro lenders in Georgia by leveraging its customer tailored product mix, experience and dedicated staff. The Company's financial products are: agro loans, business loans, consumer loans and pawnshop loans.

The Company had 14 branches as at 31 December 2018 and 2017.

Head office of JSC MFO Georgian Credit is located on 12 S. Tsintsadze str. Tbilisi, Georgia.

As at 31 December 2018 the following shareholders owned the Company's shares:

Shareholders	Number of shares in 2018	Type	31 December 2018, %	Share capital GEL
Eastern Capital AS	440,785	Ordinary	38.87%	440,785
Greeninvest LLC	195,171	Ordinary	17.21%	195,171
Other shareholders owning less than 10%	500,390	Ordinary	43.91%	500,390
	1,136,346		**100%**	**1,136,346**

As at 31 December 2017 the following shareholders owned the Company's shares:

Shareholders	Number of shares in 2017	Type	31 December 2017, %	Share capital GEL
Eastern Capital AS	440,785	Ordinary	38.87%	440,785
Greeninvest LLC	195,171	Ordinary	17.21%	195,171
Other shareholders owning less than 10%	474,590	Ordinary	43.91%	474,590
	1,110,546		**100%**	**1,110,546**

For more information about the Company's share capital, refer to Note 21.

2. BASIS OF PREPARATION

Statement of compliance

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 principal accounting policies adopted in the preparation of the financial statements are set in the Note 3.

2. BASIS OF PREPARATION (CONTINUED)

Basis of measurement

These financial statements have been prepared under the historical cost convention as modified by the initial recognition of financial instruments based on fair value and investment property subsequently measured at fair value.

The Company maintains its records and prepares financial statements in Georgian Lari (GEL) in accordance with International Financial Reporting Standards (IFRS) as required by Georgian legislation.

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

The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires Company's management to exercise judgment in the most appropriate application in applying the Company's accounting policies.

Going concern

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. The management believes that the going concern assumption is appropriate for the Company.

It should be noted, that the Company has financial as well as non-financial covenants regarding the borrowings from non-resident financial institutions. As at 31 December 2018 the Company was in breach for some covenants for majority of these financial institutions. In case of breach, these financial institutions have a right to demand all of the principal as well as accrued interest from the Company. As a result, the Company presents these amounts as current. However, the Management believes that despite the fact that there is a contractual premise to recall loans in case of breach, it is very much unlikely to materialize for two main reasons:

- The first being the technical (methodological) nature of the breach: given that IFRS9 Financial Instruments is a much more conservative approach than IAS39 Financial Instruments: Recognition and Measurement - it does imply initial adverse effects on the Company's financial standing and thus, taking into due consideration the aforementioned tendency of the new standard, the negative effects were anticipated by partner funds and other stakeholders;
- And the second, the Company increased capital in 2019 in amount of GEL2.974 million which has cured most of the adverse effect caused by the adoption of the new standard and as of the end of June 2019, there is no contractual basis for the recall.

Adoption of new or revised standards and interpretations

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

New standards or interpretations effective for the first time for periods beginning on or after 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.

The Company has adopted IFRS 9 and IFRS 15. Changes of adoption of IFRS 9 are reflected on 1 January 2018. Significant effect on the Company's financial statements was caused by adopting of IFRS 9. Details for impact of IFRS 9 Financial Instruments on transition date are disclosed in the Notes 6 and 12. There was not material impact on the Company's financial statements by adopting IFRS 15, so the Company has not made any adjustments related to adoption of IFRS 15.

b) New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Company has decided not to adopt early. The most significant of these is:

2. BASIS OF PREPARATION (CONTINUED)

IFRS 16 Leases

The scope of IFRS 16 includes all leases contracts, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset, or the underlying asset, for a period of time in exchange for consideration. The standard includes two recognition exemptions: leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a lease liability and an asset, representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use an asset.

Lessor accounting is substantially unchanged. Lessors will continue to classify all leases using the same classification principle and distinguish between two types of leases: operating and finance leases.

The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted but not before an entity applies IFRS 15.

The Company has already assessed the possible impact of the new standard on its financial statements. As at 1 January 2019 the Company will recognize right-of-use an asset and related liability amounted in GEL1,009 thousand according to adoption of the new standard.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 deviate 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:

Measurement of expected credit losses. The following are key estimations that the management have used in the process of applying the Company's accounting policies and that have the most significant effect on the loss allowances for expected credit losses:

- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- Establishing forward-looking scenarios: When measuring ECL the Company uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

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.

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 and interest 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. The Company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact tax expenses in the period in which such determination is made.

4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

The Company is exposed to the different kind of 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.

Principal financial instruments

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

	31 December 2018	31 December 2017
Cash and cash equivalents	4,461,782	3,201,345
Loans to customers	39,964,986	35,265,472
Borrowings	41,278,859	36,245,240
Subordinated borrowings	3,681,705	1,957,403
Other liabilities	92,335	64,272

General objectives, policies and processes

The Supervisory Board has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The Supervisory Board and appropriate committees receive monthly reports from the Company Managers through which they review the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Company's internal auditor also reviews the risk management policies and processes and reports its findings to the management.

The overall objective of the Supervisory Board is to set polices that seek to reduce risks as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

- Credit risk
- Liquidity risk
- Market risk:
  - Currency risk
  - Interest rate risk

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of lending and other transactions with counterparties giving rise to financial asset.

The main business of the Company is to provide micro-loans. Respectively credit risk is of crucial importance in the Company's risk management. To avoid significant financial damage caused by this the Company uses various methods to identify and manage effectively the credit risks.

Based on experience the Company uses an established credit policy which establishes the following basic stages of credit risk management:

- Tasks of the Credit Committee

4. FINANCIAL INSTRUMENTS - RISK MANAGMENT (CONTINUED)

- Monitoring of issued loans
- Ways of working on delinquent loans.

The Credit Committee is the body responsible for analyzing the information contained in loan applications and assessing and reducing the credit risks as far as possible. The Committee is an independent body authorized to make the final decision about approving or rejecting a loan application.

Accuracy and correctness of information presented to the Committee is the responsibility of the credit officer, who fills in the initial application after due scrutiny of the applicant's business and its credit risks. Committee members assess the application against established criteria (applicant's credit history, financial condition, competitive ability, etc.) and will frequently ask the credit officer for more information about the applicant before making a decision.

Mitigation of credit risk is also achieved in some cases through securing loan with real estate or other material assets.

Assessment of the applicant's creditworthiness through careful analysis of its business reduces the risk of financial loss. Monitoring is performed by credit officers who report the results to the management. The Company does not maintain a strictly determined schedule for monitoring.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2018	31 December 2017
Cash and cash equivalents (excluding cash on hand)	3,904,214	2,485,541
Loans to customers	39,964,986	35,265,472
	43,869,200	**37,751,013**

The Company's credit department reviews ageing analysis of outstanding loans and takes action to recover past due balances. Management therefore considers it to be appropriate to provide aging and other information about credit risk as disclosed in Note 12.

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**

Interest rate risk arises from potential changes in market interest rates that can adversely affect the fair values of the financial assets and liabilities of the Company. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

- **Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates, which can have adverse effects if there are mismatches by currency of financial assets and liabilities. The Company is exposed to the risks of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows.

4. FINANCIAL INSTRUMENTS - RISK MANAGMENT (CONTINUED)

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

Financial assets	GEL	USD	EUR	Total
Cash and cash equivalents	3,768,391	631,326	62,065	**4,461,782**
Loans to customers**	34,855,576	5,081,563	27,847	**39,964,986**
Total financial assets	**38,623,967**	**5,712,889**	**89,912**	**44,426,768**
Financial liabilities				
Borrowings	1,573,862	35,175,003	4,529,994	**41,278,859**
Subordinated borrowings	1,701,665	1,770,380	209,660	**3,681,705**
Other liabilities	92,335	-	-	**92,335**
Total financial liabilities	**3,367,862**	**36,945,383**	**4,739,654**	**45,052,899**
Open balance sheet position	**35,256,105**	**(31,232,494)**	**(4,649,742)**	

	GEL	USD	EUR	Total
Restricted cash in banks*	-	28,662,671	4,918,300	**33,580,971**
Borrowings collateralised with restricted cash in banks*	33,513,101	-	-	**33,513,101**
**				
Loans to customers without impairment allowance	37,289,018	6,409,093	30,033	**43,728,144**
Impairment allowance	2,433,442	1,327,530	2,186	**3,763,158**

* For details about bank deposits and borrowings collateralized with bank deposits refer to Note 11.

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

Financial assets	GEL	USD	EUR	Total
Cash and cash equivalents	590,690	2,606,677	3,978	**3,201,345**
Loans to customers	25,225,510	10,007,956	32,006	**35,265,472**
Total financial assets	**25,816,200**	**12,614,633**	**35,984**	**38,466,817**
Financial liabilities				
Borrowings	2,349,606	31,797,655	2,097,979	**36,245,240**
Subordinated borrowings	919,561	1,037,842	-	**1,957,403**
Other liabilities	64,272	-	-	**64,272**
Total financial liabilities	**3,333,439**	**32,835,497**	**2,097,979**	**38,266,915**
Open balance sheet position	**22,482,761**	**(20,220,864)**	**(2,061,995)**	

	GEL	USD	EUR	Total
Restricted cash in banks*	-	19,441,165	2,179,288	**21,620,453**
Borrowings collateralised with restricted cash in banks*	20,656,040	56,692	-	**20,712,732**

* For details about bank deposits and borrowings collateralized with bank deposits refer to Note 11.

4. FINANCIAL INSTRUMENTS - RISK MANAGMENT (CONTINUED)

CURRENCY RISK SENSITIVITY

The following table details the Company's sensitivity to a 20% increase and 20% decrease in the exchange rate of GEL per USD and per EUR. 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 exchange rates.

Impact on net profit and equity based on asset values as at 31 December 2018 and 2017 including collateralized borrowings and restricted cash affect as well as impairment allowance can be presented as follows:

	31 December 2018		31 December 2017	
Currency rate sensitivity	**+20%**	**-20%**	**+20%**	**-20%**
USD impact	(248,459)	248,459	(167,278)	167,278
EUR impact	54,149	(54,149)	23,459	(23,459)
	(194,310)	**194,310**	**(143,819)**	**143,819**

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 of financial liabilities as at 31 December 2018 can be presented as follows:

Financial liabilities	**Up to 1 year**	**Between 1 and 5 years**	**More than five years**	**Total**
Borrowings*	37,957,639	3,318,185	-	**41,278,859**
Subordinated borrowings	76,318	3,605,388	-	**3,681,705**
Other liabilities	92,335	-	-	**92,335**
	38,126.292	**3,912,398**	-	**45,052,899**

* As described in Note 2, the Company presents part of its borrowings from non-resident financial institutions as current due to breach of some covenants that were mainly caused because of IFRS 9 implementation. The Company does not expect that these financial institutions will use their right to demand all of the principal as well as accrued balance.

Liquidity of Financial liabilities as at 31 December 2017 can be presented as follows:

Financial liabilities	**Up to 1 year**	**Between 1 and 5 years**	**More than five years**	**Total**
Borrowings	16,598,272	19,646,968	-	**36,245,240**
Subordinated borrowings	29,002	1,928,402	-	**1,957,403**
Other liabilities	209,867	-	-	**209,867**
	16,837,140	21,575,370	-	**38,412,510**

4. FINANCIAL INSTRUMENTS - RISK MANAGMENT (CONTINUED)

Capital disclosures

The Company's objectives when maintaining capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders;
- To comply with the capital requirements set by NBG and borrowers; and
- To provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Company sets the amount of capital it requires in proportion to risk. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of capital distributed to shareholders, return capital to shareholders, increase its capital, or sell assets to reduce debt.

The Company is in compliance with minimum statutory capital requirements of GEL500,000 and GEL250,000 as defined by the National Bank of Georgia as at 31 December 2018 and 31 December 2017, respectively.

5. NET INTEREST INCOME

Net interest income for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Interest income on financial assets recorded at amortized cost:		
Loans to customers	12,574,289	8,823,798
	12,574,289	**8,823,798**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Borrowings	(5,507,511)	(4,068,356)
Subordinated borrowings	(343,745)	(138,112)
Swap expenses	(346,841)	-
	(6,198,097)	**(4,206,468)**
Net interest income	**6,376,192**	**4,617,330**

6. PROVISION FOR LOAN IMPAIRMENT

Movements in the loan impairment allowance for the year ended 31 December 2018 are as follows:

	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL-credit-impaired	**Total**
Balance at 1 January 2018 by IAS 39	-	-	-	**704,984**
Changes due to implementation IFRS 9	-	-	-	**1,761,076**
Balance at 1 January 2018 by IFRS 9	**488,199**	**426,086**	**1,551,775**	**2,466,060**
New loans issued	1,877,901	-	-	**1,877,901**
Transfer to Stage 1	59,830	(50,255)	(9,575)	**-**
Transfer to Stage 2	(2,137,975)	2,150,973	(12,998)	**-**
Transfer to Stage 3	-	(1,539,855)	1,539,855	**-**
Repaid loans	(1,213,763)	(812,538)	(1,649,206)	**(3,675,507)**
Write off for the year	-	-	(154,477)	**(154,477)**
Recoveries of previously written off	-	-	34,995	**34,995**
Changes due to change in credit-risk	1,682,784	597,280	912,563	**3,192,627**
Balance at 31 December 2018	**756,976**	**771,691**	**2,212,932**	**3,741,599**

Movements in the gross amount of issued loans for the year ended 31 December 2018 are as follows:

	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL-credit-impaired	**Total**
Balance at 1 January 2018 by IAS 39 and IFRS 9	-	-	-	**35,970,456**
Balance at 1 January 2018 by IFRS 9	**28,168,034**	**4,506,422**	**3,296,000**	**35,970,456**
New loans issued	51,691,424	-	-	**51,691,424**
Transfer to Stage 1	1,635,079	(1,041,189)	(593,890)	**-**
Transfer to Stage 2	(17,576,206)	17,634,062	(57,856)	**-**
Transfer to Stage 3	-	(3,092,934)	3,092,934	**-**
Repaid loans	(34,392,773)	(8,546,417)	(896,623)	**(43,835,813)**
Write off for the year	-	-	(154,476)	**(154,476)**
Recoveries of previously written off	-	-	34,994	**34,994**
Balance at 31 December 2018	**29,525,558**	**9,459,944**	**4,721,083**	**43,706,585**

6. PROVISION FOR LOAN IMPAIRMENT (CONTINUED)

Provision for loan impairment for the year ended 31 December 2017 can be presented as follows:

	Business loans	Consumer loans	Agro business loans	Total
At 1 January 2017	**(427,997)**	**(129,560)**	**(224,171)**	**(781,728)**
Provision for impairment during the year	(179,430)	(35,202)	(97,919)	**(312,551)**
Amounts written off during the year as uncollectible	229,678	64,746	94,871	**389,295**
At 31 December 2017	**(377,749)**	**(100,016)**	**(227,219)**	**(704,984)**
Among which:				
Collective impairment	(377,749)	(100,016)	(227,219)	**(704,984)**
Total provision for loan impairment	**(377,749)**	**(100,016)**	**(227,219)**	**(704,984)**

7. FEE AND COMMISSION INCOME

Fee and Commission income includes penalties on early payments and other service fees, which in 2018 and 2017 amounted GEL524,826 and GEL578,735, respectively.

8. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative and other operating expenses for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Operating leases	911,187	917,420
Depreciation and amortization	338,774	285,460
Professional services*	178,233	175,435
Advertising and marketing expenses	131,146	37,349
Utilities	114,037	86,185
Communication expenses	101,279	84,160
Office maintenance	83,664	134,502
Business trips	60,306	12,400
Court related expenses	33,249	-
Bank fees	28,029	26,280
Stationary	23,515	14,886
Taxes other than income tax	17,242	8,691
Other expenses	138,994	113,432
	2,159,655	**1,896,200**

*Audit fee in the year 2018 amounted GEL27,516 (2017:GEL21,377)

9. INCOME TAX BENEFIT (EXPENSE)

Income tax benefit for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Current tax	(114,038)	(99,752)
Effect of temporary differences	175,331	27,695
Tax-loss carry forward	-	(9,727)
	61,293	**(81,784)**

Reconciliation of income tax benefit based on statutory rate with actual income tax is as follows:

	2018	2017
Profit (loss) before income tax	**(232,323)**	**286,798**
Applicable tax rate	15%	15%
Theoretical income tax	34,848	(43,020)
Effect of permanent differences	26,445	(38,764)
	61,293	**(81,784)**

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2018 and 2017 can be presented as follows:

	31 December 2018	31 December 2017
Cash on hand	557,568	715,804
Cash on current accounts with banks in GEL	3,323,662	90,775
Cash on current accounts with banks in other currencies	580,552	2,336,441
Restricted cash*	-	58,325
	4,461,782	**3,201,345**

*At 31 December 2018 the Company does not have restricted cash. At 31 December 2017 the given amount, GEL58,325, was kept by the bank as a collateral for SWAP operations and was valid until 5 February 2018.

11. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss as at 31 December 2018 and 2017 comprise foreign currency contracts with the amount of GEL67,870 and GEL907,721, respectively.

The Company aggregates non-derivative transactions of back to back loans from banks guaranteed by foreign currency deposits placed at the same banks as derivative instruments (foreign currency contracts), due to the fact that the transactions (placement of deposit and receiving of the loan) result, in substance, in a derivative. The conclusion is based on the following indicators:

- they are entered into at the same time and in contemplation of one another
- they have the same counterparty
- they relate to the same risk

11. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

- there is no apparent economic need or substantive business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

- there is an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and future settlement.

12. LOANS TO CUSTOMERS

Loans to customers as at 31 December 2018 and 2017 can be presented as follows:

	31 December 2018	31 December 2017
Principal	42,301,921	34,548,943
Interest	1,404,664	1,421,513
Impairment allowance	(3,741,599)	(704,984)
	39,964,986	**35,265,472**

Information related to loans to customers after adopting IFRS 9 can be presented as follows:

Portfolio distribution as at 31 December 2018, by loan type is as follows:

31 December 2018	Gross Amount	*ECL* Stage 1	Stage 2	Stage 3	Total ECL	Net Amount	ECL %
Agro Loans	21,348,009	(282,773)	(428,914)	(1,102,505)	(1,814,192)	19,533,817	8.50%
Business Loans	17,079,959	(290,360)	(252,638)	(812,068)	(1,355,066)	15,724,893	7.93%
Consumer Loans	5,087,024	(179,168)	(85,532)	(294,577)	(559,277)	4,527,747	10.99%
Pawnshop Loans	191,593	(4,624)	(4,566)	(3,874)	(13,064)	178,529	6.82%
	43,706,585	(756,925)	(771,650)	(2,213,024)	(3,741,599)	39,964,986	8.56%

Information about movements in provision for loan impairment is given in Note 6.

Currency analysis of loans to customers is given in Note 4.

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

Agro Loan

31 December 2018	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	17,402,915	413,257	17,816,172	(573,210)	17,242,962	3.22%
-overdue less than 31 days	702,698	30,841	733,539	(66,930)	666,609	9.12%
-overdue 31-60 days	244,609	17,251	261,860	(39,520)	222,340	15.09%
-overdue 61-90 days	160,125	30,598	190,722	(32,027)	158,695	16.79%
-overdue more than 90 days	1,952,444	393,271	2,345,716	(1,102,505)	1,243,211	47.00%
	20,462,791	**885,218**	**21,348,009**	**(1,814,192)**	**19,533,817**	**8.50%**

12. LOAN TO CUSTOMERS (CONTINUED)

Business loans

31 December 2018	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	13,082,933	91,536	13,174,468	(380,746)	12,793,722	2.89%
-overdue less than 31 days	1,545,003	36,786	1,581,789	(123,209)	1,458,580	7.79%
-overdue 31-60 days	177,172	5,969	183,141	(26,227)	156,914	14.32%
-overdue 61-90 days	156,436	9,790	166,226	(12,817)	153,409	7.71%
-overdue more than 90 days	1,714,380	259,954	1,974,335	(812,067)	1,162,268	41.13%
	16,675,924	**404,035**	**17,079,959**	**(1,355,066)**	**15,724,893**	**7.93%**

Consumer Loan

31 December 2018	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	3,895,134	24,496	3,919,630	(156,354)	3,763,276	3.99%
-overdue less than 31 days	686,248	18,237	704,485	(88,060)	616,425	12.50%
-overdue 31-60 days	21,204	1,556	22,760	(7,462)	15,298	32.79%
-overdue 61-90 days	39,000	3,891	42,891	(12,823)	30,068	29.90%
-overdue more than 90 days	332,160	65,098	397,258	(294,578)	102,680	74.15%
	4,973,746	**113,278**	**5,087,024**	**(559,277)**	**4,527,747**	**10.99%**

Pawnshop Loans

31 December 2018	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	143,024	725	143,749	(4,141)	139,608	2.88%
-overdue less than 31 days	16,278	344	16,621	(931)	15,690	5.60%
-overdue 31-60 days	24,183	777	24,961	(4,118)	20,843	16.50%
-overdue more than 90 days	5,975	287	6,262	(3,874)	2,388	61.87%
	189,460	**2,133**	**191,593**	**(13,064)**	**178,529**	**6.82%**

Loans with collaterals and without collaterals outstanding at 31 December 2018 can be presented as follows:

31 December 2018	Gross Amount	ECL	Net Amount	ECL %
Collateralized Loans	40,127,581	(3,364,618)	36,762,963	8.38%
Uncollateralized Loans	3,579,004	(376,981)	3,202,023	10.53%
	43,706,585	**(3,741,599)**	**39,964,986**	**8.56%**

12. LOAN TO CUSTOMERS (CONTINUED)

Analysis by credit quality of loans outstanding at 31 December 2017 is as follows:

	Business loans	Consumer loans	Pawnshop loans	Agro business loans	Total
Current and not impaired	13,610,495	2,263,626	277,570	15,776,752	31,928,443
Past due but not impaired - Fully secured loans	1,123,160	16,304	12,273	1,107,816	2,259,553
Loans determined to be collective impaired:					
Performing - rehabilitated loans	324,490	83,362	-	229,101	636,953
31-90 days overdue	82,141	14,484	-	277,022	373,647
91-180 days overdue	55,641	15,625	-	102,022	173,288
181-365 days overdue	139,519	12,159	-	63,876	215,554
More than 365 days	205,947	87,264	-	89,807	383,018
Gross loans to customers	**15,541,393**	**2,492,824**	**289,843**	**17,646,396**	**35,970,456**
Less impairment provisions	(377,749)	(100,016)	-	(227,219)	(704,984)
	15,163,644	**2,392,808**	**289,843**	**17,419,177**	**35,265,472**

Loans with collaterals and without collaterals outstanding at 31 December 2017 can be presented as follows:

	31 December 2017
Loans with Collaterals	33,795,035
Loans with no Collaterals	2,196,980
Less: allowance for impairment losses	(704,984)
	35,265,472

Loans with collaterals by collateral's type as at 31 December 2018 and 2017 can be presented as follows:

Collateral Type	31 December 2018	31 December 2017
Real Estate	21,089,180	15,838,799
Personal	18,513,940	17,289,994
Jewelry	251,625	311,574
Machinery	248,598	331,377
Marketable Securities	24,238	23,291
	40,127,581	**33,795,035**

13. OTHER ASSETS

Other assets as at 31 December 2018 and 2017 can be presented as follows:

	31 December 2018	31 December 2017
Prepayments*	299,963	525,414
Other	54,986	65,358
	354,949	**590,772**

*Amount of prepayments as at 31 December 2018 and 2017 contains advance payment for software purchase with amount GEL159,559 and GEL337,457, respectively.

14. INVESTMENT PROPERTY

Investment property as at 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Balance at the beginning of year	**2,425,224**	**2,329,228**
Additions	136,317	230,738
Disposals	(246,000)	(4,980)
Gain (loss) on revaluation of investment property	128,516	(129,762)
Balance at the end of year	**2,444,057**	**2,425,224**

Investment property is carried at fair value, derived from the current market prices for comparable real estate determined by an external valuer who is an industry specialist in valuing such kind of property. Observable market prices are used for valuation and if necessary relevant adjustments are made for any difference in the nature, location or condition of the specific asset under valuation. Changes in fair value are recognized as profit or loss.

The Company has not received any rental income from investment properties.

As at 31 December 2018 Investment properties with the value GEL1,743,815 are pledged as collateral for borrowings from TBC bank (2017:GEL 2,425,224).

Gain (loss) on revaluation and initial recognition of investment properties for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Net gain at initial recognition of repossessed inventory	-	99,007
Gain (loss) on revaluation of investment property	128,516	(129,762)
	128,516	**(30,755)**

15. PROPERTY AND EQUIPMENT

Property and equipment as at 31 December 2018 and 2017 can be presented as follows:

Historical cost	Leasehold improvements	Furniture and office equipment	Computer and communication equipment	Vehicles	Total
Historical cost 31.12.2016	**222,917**	**426,866**	**941,689**	**100,017**	**1,691,489**
Additions	43,717	16,665	6,935	36,200	**103,517**
Disposals	(4,658)	(52,489)	(224,834)	(37,612)	**(319,593)**
Historical cost 31.12.2017	**261,976**	**391,042**	**723,790**	**98,605**	**1,475,413**
Additions	-	22,122	47,576	-	**69,698**
Disposals	-	-	-	(10,372)	**(10,372)**
Historical cost 31.12.2018	**261,976**	**413,164**	**771,366**	**88,233**	**1,534,739**
Accumulated depreciation					
Accumulated depreciation 31.12.2016	**(30,750)**	**(221,266)**	**(447,422)**	**(26,462)**	**(725,900)**
Depreciation for the year	(31,058)	(33,035)	(192,572)	(12,549)	**(269,214)**
Accumulated depreciation of disposals	4,657	47,699	213,588	26,350	**292,294**
Accumulated depreciation 31.12.2017	**(57,151)**	**(206,602)**	**(426,406)**	**(12,661)**	**(702,820)**
Depreciation for the year	(31,058)	(48,994)	(218,662)	(12,450)	**(311,164)**
Accumulated depreciation of disposals	-	-	-	2,939	**2,939**
Accumulated depreciation 31.12.2018	**(88,209)**	**(255,596)**	**(645,068)**	**(22,172)**	**(1,011,045)**
Net book value					
Net book value 31.12. 2017	**204,825**	**184,440**	**297,384**	**85,944**	**772,593**
Net book value 31.12. 2018	**173,767**	**157,568**	**126,298**	**66,061**	**523,694**

16. INTANGIBLE ASSETS

Intangible assets as at 31 December 2018 and 2017 can be presented as follows:

Historical cost	Accounting and other software	Other intangible assets	Total
Historical cost 31.12.2016	**159,677**	**29,133**	**188,810**
Additions	-	3,577	**3,577**
Disposals	**(18,523)**	**(3,421)**	**(21,944)**
Historical cost 31.12.2017	**141,154**	**29,289**	**170,443**
Additions	180,156	-	**180,156**
Disposals	-	-	-
Historical cost 31.12.2018	**321,310**	**29,289**	**350,599**
Accumulated amortization			
Accumulated amortization 31.12.2016	**(41,648)**	**(9,463)**	**(51,111)**
Amortization	(15,132)	(1,114)	**(16,246)**
Accumulated amortization of disposals	11,934	6,486	**18,420**
Accumulated amortization 31.12.2017	**(44,846)**	**(4,091)**	**(48,937)**
Amortization	(26,496)	(1,114)	**(27,610)**
Accumulated amortization of disposals	-	-	-
Accumulated amortization 31.12.2018	**(71,342)**	**(5,205)**	**(76,547)**
Net book value			
Net book value 31.12. 2017	**96,308**	**25,198**	**121,506**
Net book value 31.12. 2018	**249,968**	**24,084**	**274,052**

In 2018 the Company has started the use of some modules of accounting software - „Alta Software“ and recognised part of its advances (paid for this program) as intangible asset.

17. DEFERRED TAX ASSET

Deferred tax asset as at 31 December 2018 and 2017 can be presented as follows:

	31 December 2018	31 December 2017
At 1 January	**121,020**	**103,052**
Changes due to implementation IFRS 9	264,161	-
Balance at 1 January 2018 after changes due to IFRS 9	**385,181**	**103,052**
Recognized in profit and loss		
Tax benefit	175,331	17,968
At 31 December	**560,512**	**121,020**

17. Deferred tax asset (Continued)

Temporary differences as at 31 December 2018 can be presented as follows:

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged)/ credited to Equity
	2018	2018	2018	2018	2018
Property and equipment & Intangible assets	-	(78,554)	(78,554)	29,744	
Loans to customers	586,259	-	586,259	172,194	264,161
Other assets	8,504	-	8,504	12,896	
Borrowings	57,850	-	57,850	(20,616)	
Other liabilities	5,730	-	5,730	390	
Investment Property	-	(19,277)	(19,277)	(19,277)	
Tax asset/(liabilities)	**658,343**	**(97,831)**	**560,512**	**175,331**	**264,161**
Set off of tax	(97,831)	97,831			
Net tax assets/(liabilities)	**560,512**	**-**	**560,512**	**175,331**	**264,161**

Temporary differences as at 31 December 2017 can be presented as follows:

	Asset	Liability	Net	(Charged)/ credited to profit or loss
	2017	2017	2017	2017
Property and equipment & Intangible assets	-	(108,298)	(108,298)	16,460
Loans to customers	149,904	-	149,904	11,752
Other assets	-	(4,392)	(4,392)	(8,504)
Borrowings	78,466	-	78,466	(647)
Other liabilities	5,340	-	5,340	8,634
Tax-loss carry forward	-	-	-	(9,727)
Tax asset/(liabilities)	**233,710**	**(112,690)**	**121,020**	**17,968**
Set off of tax	(112,690)	112,690		
Net tax assets/(liabilities)	**121,020**	**-**	**121,020**	**17,968**

18. BORROWINGS

Borrowings as at 31 December 2018 and 2017 can be presented as follows:

	Interest rate	Currency	31 December 2018	31 December 2017
Resident financial institutions	7%-14.50%	GEL-USD	1,409,570	2,993,713
Non-resident financial institutions*	6% - 10%	USD-EUR	33,062,831	23,073,439
Shareholders	6.5% - 14%	GEL-USD-EUR	5,172,826	1,895,358
Non-resident individuals	6.5% - 16%	GEL-USD-EUR	1,633,632	3,233,606
Resident individuals	7% - 15%	GEL-USD	-	5,049,124
			41,278,859	**36,245,240**

*Details for borrowings from non-resident financial institutions as at 31 December 2018 and 2017 can be presented as follows:

	31 December 2018	31 December 2017
INVEST IN VISION	5,475,301	5,272,247
GLS ALTERNATIVE INVESTMENTS	5,451,800	-
Triple Jump Innovation Fund	4,074,661	2,623,864
EMF Microfinance Fund	4,073,957	-
BLUEORCHARD MICROFINANCE FUND	4,038,930	7,810,905
Bank Im Bistum	3,679,224	
Global impact investments Sarl as the Holder	2,762,757	2,661,087
SME Finance Loans for Growth	2,432,171	2,346,692
KOLIBRI KAPITAL ASA	1,074,030	1,055,523
WALLBERG INVEST S.A	-	1,303,121
	33,062,831	**23,073,439**

Accrued interest and principal balances as at 31 December 2018 and 2017 can be presented as follows:

	31 December 2018	31 December 2017
Principal balance	40,446,225	35,463,280
Accrued interest	832,634	781,960
	41,278,859	**36,245,240**

Current and non-current portions of borrowings as at 31 December 2018 and 2017 can be presented as follows:

	31 December 2018	31 December 2017
Current*	37,957,639	16,598,273
Non-current	3,318,185	19,646,967
	41,275,824	**36,245,240**

Currency and maturity analysis of borrowings is given in Note 4.

The Company has financial as well as non-financial covenants regarding the borrowings from non-resident financial institutions. In 2018, the Company was in breach with some financial covenants which were caused mainly due to IFRS 9 implementation results. As a result, the Company presented

18. BORROWINGS (CONTINUED)

GEL13,280 thousand as current. The Company does not expect that these financial institutions will use their right to demand all of the principal as well as accrued balance.

The Company was in compliance with the covenants as at 31 December 2017.

Changes in borrowings (including subordinated borrowings) for the accounting years 2018 and 2017 arising from financing activities, including both changes arising from cash flows and non-cash flows can be presented as follows:

	31 December 2018	31 December 2017
1 January	**38,202,643**	**32,100,473**
Cash flow		
Received loans, net	5,204,534	6,289,542
Interest paid	(6,100,106)	(3,325,329)
Non-cash flows*		
Interest accrual	6,198,097	4,206,468
Set off	-	(36,692)
Translation differences	1,455,396	(1,031,819)
31 December	**44,960,564**	**38,202,643**

19. SUBORDINATED BORROWINGS

Subordinated borrowings as at 31 December 2018 and 2017 can be presented as follows:

	31 December 2018	31 December 2017
Principal balance	3,605,387	1,928,402
Accrued interest	76,318	29,001
	3,681,705	**1,957,403**

As at 31 December 2018 the majority of Company's subordinated borrowings are denominated in USD and GEL, with equivalent value of GEL3,472,045. The rest of the subordinated borrowings, GEL209,660, is denominated in EUR. Interest rates for USD denominated borrowings are in the range of 11%-14%. For GEL and EUR denominated loans, interest rates amounts 16,3% and 8%, respectively. These loans are repayable in 2021 and 2023.

As at 31 December 2017 the company's subordinated borrowings amounted GEL1,957,403. These were denominated in USD and GEL, GEL1,037,842 and GEL919,561, respectively. Interest rates for USD and GEL denominated loans amounted 14% and 16.3%, respectively.

In the event of a bankruptcy principal payments as well as interest payments rank junior to any claim senior creditors are entitled to. The payments shall rank pari passu among subordinated debts and to other claims of junior creditors but remain senior to equity.

20. OTHER LIABILITIES

Other liabilities as at 31 December 2018 and 2017 can be presented as follows:

	31 December 2018	31 December 2017
Taxes payable*	72,061	155,789
Received advances	45,471	65,733
Accounts payable to employees	38,197	35,600
Other accounts payable	54,138	28,672
	209,867	**285,794**

*According to the Georgian Tax Legislation, the Company should pay taxes on unified treasury code applicable for all taxes. As a result, as at 31 December 2018 the Company presents tax assets and liabilities on a net basis.

21. SHARE CAPITAL AND SHARE PREMIUM

Company's share capital as at 31 December 2018 and 2017 comprise of 1,136,346 and 1,110,546 ordinary shares in issue with a value of GEL1 each, respectively. On 21 September 2018 company issued in addition 25,800 shares with nominal value of GEL1 per share. Placement price was defined as GEL9 per share and the share premium has increased with GEL206,400.

On 24 February 2017 company issued 100,000 shares with nominal value of GEL1 per share (placement price GEL9 per share). As at 31 December 2017 share premium amounted GEL2,287,348.

Information about shareholders is disclosed in Note 1.

22. CONTINGENCIES AND COMMITMENTS

Litigation

In the ordinary course of business, the Company is subject to legal actions and complaints. However, the management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company.

Management report

In accordance with the Law on accounting, reporting and auditing (article 7) the Company has an obligation to prepare and submit Management Report to the State Regulatory Authority, together with Independent Auditors' Report no later than 1 October of the year following the reporting period. The Company has not fulfilled this obligation at the date of issue of the financial statements.

22. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Operating lease commitments

The company's head office and all of it's branches are leased from various parties under operating leases. Their maturity varies between 3 and 8 years, with the option of prolongation. The Future lease payments as at 31 December 2018 and 2017 can be presented as follows:

	31 December 2018	31 December 2017
Up to 1 month	79,715	77,186
1 month to 3 months	151,065	154,372
3 months to 1 year	490,168	583,770
Between 1 and 2 years	216,679	608,957
Between 2 and 5 years	209,192	383,260
More than five years	133,841	-
	1,280,660	**1,807,545**

During the year ended 31 December 2018 and 2017 GEL911,187 and GEL917,420 respectively were recognised as expense in the statement of profit or loss and other comprehensive income in respect of operating leases.

Changes in Georgian legislation

On 23 December 2017 the President of Georgia signed decision regarding the following amendments to the Law of Georgia on Microfinance Organizations:

- The maximum total amount of a microcredit extended by a Microfinance Organization to a single borrower may not exceed GEL100,000 (instead of GEL50,000 as stated before);
- At the moment of registration, minimal paid in share capital in an authorized capital of a Microfinance Organization may not be less than GEL1,000,000 (instead of GEL250,000 as stated before). For the existing Microfinance Organizations' defined minimal amount of authorized capital must be filled up till 1 July 2019 by the following manner:
  - Not less than GEL500,000 - till 1 September 2018;
  - Not less than GEL1,000,000 - till 1 July 2019.

NBG regulations

On 5 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 is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. As per currently effective tax legislation in Georgia fiscal periods remain open to review by the authorities in respect of taxes for 3 calendar years preceding the period of review.

Provisions for tax liabilities are recognised when the amount can be measured reliably. No provision is recognised for uncertain tax positions if no reliable estimate can be made. The Company's management believes that Georgian tax legislation does not give raise to any further obligation other than already recorded and the Group's tax positions will be sustained.

23. TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Company and related parties are disclosed below.

Related party balances and transactions as and for the year ended 31 December 2018:

Financial statement caption	Note	Shareholders	Key management personnel	Other related parties	Total as per the financial statements caption
Borrowings	18	2,695,222	-	217,767	**41,278,859**
Subordinated borrowings	19	1,118,908	-		**3,681,705**
Interest expense	5	220,813	-	77,983	**6,198,097**
Staff costs including salaries and bonuses		-	336,000	-	**3,607,195**
General and administrative expenses	8		22,029	-	**2,159,655**

Related party balances and transactions as and for the year ended 31 December 2017:

Financial statement caption	Note	Shareholder	Key management personnel	Other related parties	Total as per the financial statements caption
Borrowings	18	1,895,358	-	374,331	**36,245,240**
Subordinated borrowings	19	1,718,846	-	238,557	**1,957,403**
Interest expense	5	367,102	-	69,954	**4,206,468**
Staff costs including salaries and bonuses		-	291,000	-	**2,651,414**

24. EVENTS AFTER THE REPORTING PERIOD

In April 2019 the Company borrowed funds form MCE Social Capital with amount USD500,000. Also, in May 2019 the Company borrowed additional funds from Invest in Vision (Incofin CVSO CVBA-SO) with amount USD1,000,000.

On 28 June 2019 the equity was raised through FrauenfinanzTreuhand GmbH which bought 175,000 shares with amount GEL1,575 thousand.

In June 2019, the Company also signed the commitment agreement to convert some of its subordinated debts into equity. According to the agreement, subordinated debts with amount around GEL1,400 thousand are converted to equity.

In June 2019 the Company was fined with amount GEL36,000 from the regulator due to inspection of AML functions.

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

FOREIGN CURRENCY TRANSLATION

The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The Company's functional and presentation currency is the national currency of Georgia, Lari.

Monetary assets and liabilities are translated into functional currency at the official exchange rate for the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities at year-end official exchange rates are recognized in statement of comprehensive income. Translation at year-end rates does not apply to nonmonetary items.

At 31 December 2018 and 2017 the closing exchange rates used for translating foreign currency balances to Georgian Lari were:

	Official rate of the National Bank of Georgia	
	USD	EUR
Exchange rate as at 31 December 2018	2.6766	3.0701
Exchange rate as at 31 December 2017	2.5922	3.1044

FINANCIAL INSTRUMENTS

The Company has adopted IFRS 9 as issued by the IASB in July 2014 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 6 and Note 17.

Consequently, for notes disclosures, 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 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.

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

IFRS 9 replaces the 'incurred loss' (CL) model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Initial recognition of financial instruments

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.

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

If the transaction price differs from fair value at initial recognition, the Company accounts for such difference as follows:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Company recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price.

After initial recognition, the Company recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognised.

FINANCIAL ASSETS

Classification and subsequent measurement

On initial recognition, a financial asset is classified into one of the following measurement categories: amortised cost; fair value through other comprehensive income (FVOCI); or fair value through profit or loss (FVTPL).

FINANCIAL ASSETS AT AMORTIZED COST

Financial asset at amortised cost is the most relevant measurement category to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

A financial asset is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

The Company's all financial assets are measured at amortised cost, except Derivative financial assets.

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 and is based on observable factors.

The Company has considered quantitative factors and qualitative factors such as how the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel; 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.

SOLELY PAYMENTS OF PRINCIPAL AND INTEREST (SPPI)

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.

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERECOGNITION OF FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

IMPAIRMENT OF FINANCIAL ASSETS

Changes to the impairment estimation

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.

From 1 January 2018 the Company recorded the allowance for expected credit loss for all debt instruments that are measured at amortised cost.

The determination of impairment losses and allowance moves from an incurred credit loss model whereby credit losses are recognised when a defined loss event occurs under IAS 39, to an expected credit loss model under IFRS 9, where provisions are taken upon initial recognition of the financial instruments. Under IFRS 9, the Company first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

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.

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

Business Profile	Stage 1	Stage 2	Stage 3
Agro Loans	0-30	31-90	>90
Business Loans	0-30	31-90	>90
Consumer Loans	0-30	31-90	>90
Pawnshop Loans	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:

a) 31 days past due;
b) Loan restructuring;
c) Initiation of legal proceedings on collateral by third party;
d) Criminal case against debtor or co-debtor;
e) Loss of job by the borrower;
f) Liquidation of a large part of the borrower's business;
g) Significant deterioration of the sector in which the borrower operates.

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

h) Overdue days are between 0 and 30;
i) Improvement of the circumstances for which the loan was moved to stage 2.

Restructured loans aren't transferred back to stage 1.

Defaulted loans are immediately moved to stage 3 and could be transferred to the previous stages.

Definition of default

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

a) 91 days past due;
b) Death or disappearance of the debtor or co-debtor;
c) Destruction or disappearance of collateral;
d) 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.

The loans for which the Company recognizes default are credit-impaired loans.

Loan Restructuring

Restructuring operation/transaction is made within current liability. The agreement about changes in loan term is formed between company and borrower and the recalculation of loan schedule is done afterwards.

Loan restructuring is considered as change in credit risk for the company. Restructured loans are not moved directly to stage 3 because such modification does not lead to material losses for the Company. Accordingly, restructured loans are moved to Stage 2. Restructured loans aren't transferred back to stage 1.

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

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information.

The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

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

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and

There is no unwarranted volatility in loss allowance from transfers between 12-months PD (probability of default) and lifetime PD.

Forward-looking information

Under IFRS 9, the allowance for credit losses is based on reasonable and supportable forward looking information obtainable without undue cost or effort, which takes into consideration past events, current conditions and forecasts of future economic conditions.

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Company has identified and documented the key drivers of credit risk and credit losses for the portfolio using an analysis of historical data, has assessed impact of macro-economic variables on probability of default and recovery rate. The following macro-economic variables were analyzed:

- Real growth rate of GDP of Georgia;
- Inflation rate.

Forecasting of forward looking information

The company uses last 5 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 0.3 and less than -0.5, accordingly.

The company uses baseline, upside and adverse scenarios provided by National Bank of Georgia. Based on the recommendation of National Bank of Georgia, probability of 50% is assigned to the baseline scenario, while the upside and adverse scenarios are given probability of 25%. The company uses Vasicek model to adjust probability of default for forward-looking information

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).

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expected credit loss is measured separately for all segments. 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. The variables (excluding EAD) are calculated annually. EAD is updated every time the loan loss provision is calculated.

Probability of default (PD)

PD estimates are estimates at a certain date, which are calculated based on statistical rating models.

If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures.

The Company uses last 5 years statistics in case of existence (but not less than 2 years) 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. Migration matrix is divided into following buckets:

Bucket	Days overdue	Restructuring status	Stage
1	Closed		
2	0	No	I
3	1-30	No	I
4	31-60	No	II
5	61-90	No	II
6	0-90	Yes	II
7	>90	Yes	III
8	>90	No	III

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 during last 5 years (in case of existence) 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): The 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.

Prepayment rate calculated on historical data is also considered and it reduces outstanding balance till the default date (It is used in calculations if only the average maturity of the loan exceeds 12 months). Exposure at default is calculated for each year during the weighted average contractual maturity of the portfolio.

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

FINANCIAL LIABILITIES

IAS 39 - Financial Instruments: Recognition and Measurement was replaced by IFRS 9 - Financial Instruments. According to new accounting policy financial liabilities could be classified for one of these categories - "Financial liability at fair value through profit or loss" and "Other financial liabilities". The Company has estimated which business model was sufficiant to the Company's financial liabilities and has classified them as "Other financial liabilities" at 1 January 2018 (Adoption date for IFRS 9).

The Company's other financial liabilities comprise other liabilities and borrowings.

Other financial liabilities are initially recognised at fair value plus transaction costs that are directly attributable to their release. The liabilities of such interest are subsequently recorded at amortized cost using the effective interest rate method which ensures accrual of interest on the carrying amount of the 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.

Offsetting of financial assets and liabilities

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

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 other comprehensive income.

FAIR VALUE MEASUREMENT

IFRS 13 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Financial instruments measured at fair value by the level 2 in the fair value hierarchy are presented in Notes 11.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, and all bank placements or receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments included in financial assets at fair value through profit or loss or loss in the statement of financial position comprise foreign currency forward contracts and currency swaps.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. All derivatives are carried as financial assets when their fair value is positive and as financial liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

PROPERTY, EQUIPMENT AND INTAGIBLE ASSETS

All property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized 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. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Property and equipments are depreciated on a straight-line basis over expected useful lives. Residual values are not considered.

Company's intagible assets primarily include capitalized computer software. They are stated at historical cost less accumulated amortization. Intangible assets are amortized on a straight-line basis over expected useful lives.

Below are given relevant useful lives of property, equipment and intangible asset, which are used for depreciation/amortization calculations purposes.

Group	Useful life (year)
Leasehold improvements	3-9
Furniture	3-7
IT equipment	1-7
Vehicles	5
Furniture	7-10
Intagible Assets	7-10

CURRENT AND DEFFERED INCOME TAX

The tax expense for the year comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in Georgia and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rate (and laws) that has been enacted or substantially enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity where there is an intention to settle the balances on a net basis.

BORROWED FUNDS

Borrowed funds are initially recognised at fair value. Subsequently they are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings, using the effective interest method.

RECOGNITION OF INTEREST INCOME AND EXPENSE

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

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

Additional information for recognition of interest income is disclosed above, in the article **"INTEREST INCOME RECOGNITION".**

STAFF COSTS AND RELATED CONTRIBUTIONS

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.

RECOGNITION OF OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses are recognized in the statement of comprehensive income 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.

Operating and administrative expenses are recognized in the statement of comprehensive income 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.

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities are not reflected in the financial statements, except for the cases when the outflow of economic benefits is likely to begin 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 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.

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. A legal obligation is an obligation that derives from:

(a) A contract (through its explicit or implicit terms);

(b) Legislation; or

(c) Other operation of law.

A constructive obligation is an obligation that derives from an entity's actions where:

(a) By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities