Microfinance Organization
Credex LLC

Financial Statements
for the year ended 31 December 2018

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Independent Auditors' Report

To the Shareholders of Microfinance Organisation Credex LLC

Opinion

We have audited the financial statements of Microfinance Organization Credex LLC (the "Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 (IFRS).

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 Auditors' 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.

Statement of Management Report

Management is responsible for the Management Report. The Management Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the Management Report and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management Report when it becomes available and, in doing so, consider whether the Management Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Management Report, we conclude whether the other information:

— is consistent with the financial statements and does not contain material misstatement;

— contains all information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

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 IFRS, 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.

KPMG Georgia LLC, a company incorporated under the Laws of Georgia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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.

Auditors' 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 auditors' 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.

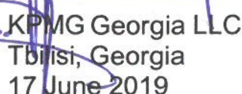
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- 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 auditors' 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 auditors' 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 on the audit resulting in this independent auditors' report is:

Karen Safaryan



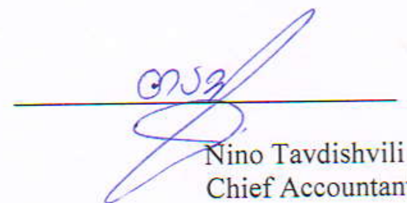
KPMG Georgia LLC
Tbilisi, Georgia
17 June 2019

GEL	Notes	2018	2017*
Interest income calculated using the effective interest method	6	1,710,183	1,543,462
Interest expense	6	(363,178)	(355,170)
Net interest income		**1,347,005**	**1,188,292**
Impairment loss on debt financial assets	11	(101,413)	(109,569)
Net interest income after provision for loan impairment		**1,245,592**	**1,078,723**
Net foreign exchange loss		(3,473)	(49,393)
Net gain/(loss) on financial instruments at fair value through profit or loss		11,488	(7,866)
Other operating income		2,618	4,939
Other operating expenses		-	(1,629)
Personnel expenses	7	(314,189)	(294,733)
Other general administrative expenses	8	(281,804)	(248,900)
Depreciation and amortization expenses	12	(27,504)	(30,729)
Profit before income tax		**632,728**	**450,412**
Income tax expense	9	(94,238)	(68,597)
Profit and total comprehensive income for the year		**538,490**	**381,815**

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(i)).

The financial statements as set out on pages 5 to 48 were approved by management on 17 June 2019 and were signed on its behalf by:

Zurab Akhalaia
Chief Executive Officer



Nino Tavdishvili
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements.

GEL	Notes	2018	2017*
ASSETS			
Cash and cash equivalents	10	739,059	423,601
Loans to customers	11	3,764,901	4,055,793
Property, equipment and intangible assets	12	45,068	72,572
Deferred tax assets	9	14,058	26,913
Financial instruments at fair value through profit or loss	15	5,950	-
Repossessed assets	11(b)(ii)	174,904	26,500
Other assets	13	98,036	106,162
Total assets		**4,841,976**	**4,711,541**
LIABILITIES			
Financial instruments at fair value through profit or loss	15	-	7,866
Loans and borrowings	14	2,590,592	2,796,179
Current tax liability		46,191	47,481
Other liabilities		23,584	29,352
Total liabilities		**2,660,367**	**2,880,878**
EQUITY			
Charter capital	16	1,000,000	1,000,000
Retained earnings	16	1,181,609	830,663
Total equity		**2,181,609**	**1,830,663**
Total liabilities and equity		**4,841,976**	**4,711,541**

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 5).

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

GEL	Note	2018	2017*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		632,728	450,412
Adjustments for:			
Depreciation and amortization		27,504	30,729
Interest income		(1,710,183)	(1,543,462)
Interest expenses		363,178	355,170
Foreign exchange loss from revaluation		3,473	54,764
		(683,300)	**(652,387)**
Changes in:			
Decrease/(increase) in loans to customers		400,659	(197,944)
Decrease/(increase) in repossessed assets		(148,404)	18,462
Decrease/(increase) in other assets		(21,378)	(49,046)
Change in financial instruments at fair value through profit or loss		(13,816)	7,866
(Decrease)/increase in other liabilities		(5,515)	12,058
Cash used in operating activities		**(471,754)**	**(860,991)**
Interest received		1,625,855	1,515,740
Interest paid		(370,302)	(354,964)
Income tax paid		(82,673)	(82,294)
Cash from operations		**701,126**	**217,491**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of intangible assets		-	(12,847)
Cash flows used in investing activities		**-**	**(12,847)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of unpaid charter capital	16(a)	8,000	6,000
Receipts from loans and borrowings		2,111,327	5,575,712
Repayment of loans and borrowings		(2,343,629)	(5,759,780)
Dividends paid		(191,054)	(167,368)
Cash flows used in financing activities		**(415,356)**	**(345,436)**
Net increase/(decrease) in cash and cash equivalents		**285,770**	**(140,792)**
Effect of changes in exchange rates on cash and cash equivalents		29,688	(12,536)
Cash and cash equivalents as at the beginning of the year		423,601	576,929
Cash and cash equivalents as at the end of the year	10	**739,059**	**423,601**

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 5).

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

GEL	Charter capital	Retained earnings	Total
Balance as at 1 January 2017	1,000,000	616,216	1,616,216
Total comprehensive income for the year			
Profit and other comprehensive income for the year	-	381,815	381,815
Transactions with owners, recorded directly in equity			
Dividends declared	-	(167,368)	(167,368)
Balance as at 31 December 2017	**1,000,000**	**830,663**	**1,830,663**
Balance as at 1 January 2018*	1,000,000	830,663	1,830,663
Adjustment on initial application of IFRS 9, net of tax (see Note 5)	-	3,510	3,510
Restated balance as at 1 January 2018	**1,000,000**	**834,173**	**1,834,173**
Profit and other comprehensive income for the year	-	538,490	538,490
Transactions with owners, recorded directly in equity			
Dividends declared and paid	-	(191,054)	(191,054)
Balance as at 31 December 2018	**1,000,000**	**1,181,609**	**2,181,609**

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 5).

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organization and operations

Microfinance Organization Credex LLC ("the Company") was established on 23 August 2012 to provide sustainable lending services to those individual entrepreneurs who are not able to access credit facilities through the conventional banking system. The Company provides credit facilities to very small entrepreneurs to grow their businesses and improve their economic situation.

The legal address of the Company is 7 Chabukiani Street, Tbilisi, Georgia. The registration number of the Company is 400058030.

The supreme governing body of the Company is the Shareholders Board. The supervision of the Company's operations is conducted by the Supervisory Board, members of which are appointed by the Shareholder's Board. Daily management of the Company is carried out by the Chief Executive Officer appointed by the Supervisory Board.

The Company was founded by Georgian citizens Vakhtang Bartaia, Mikheil Tsogoshvili and Zurab Akhalaia with 70%, 20% and 10% shares, respectively, in the Company's charter capital.

The Company had the following shareholders:

As at 31 December 2018:
Sophio Devdariani – 40%;
Natalia Kekelidze – 30%;
Zurab Akhalaia – 30%.

As at 31 December 2017:
Sophio Devdariani – 40%;
Natalia Kekelidze – 30%;
Zurab Akhalaia – 30%.

As at 31 December 2018 the Company has received 38% of funding from these shareholders (2017: 34%). The shareholders have the power to direct the transactions of the Company at their own discretion and for their own benefit. They also have a number of other business interests outside the Company.

Related party transactions are disclosed in note 20.

(b) Georgian business environment

The Company's operations are located in Georgia. Consequently, the Company is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia.

The financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and financial position of the Company. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

This is the first set of the Company's annual financial statements to which IFRS 9 *Financial Instruments and* IFRS 15 *Revenue from Contracts with Customers* has been applied. Changes to significant accounting policies are described in Note 2(e).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Company is the Georgian Lari (GEL) as, being the national currency of Georgia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The GEL is also the presentation currency for the purposes of these financial statements. All financial information presented in GEL is rounded to the nearest currency unit.

(d) Use of estimates and judgments

In preparing of these financial statements, management has made judgement, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- Applicable to 2018 only
  - classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding –Note 3(d)(i).
  - establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes:

- Applicable to 2018 only
  - Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4.

- Applicable to 2018 and 2017
  - Loans to customers: impairment allowance estimates – Note 3(d)(iv).

(e) Changes in accounting policies and presentations

The Company has initially adopted IFRS 9 and IFRS 15 from 1 January 2018.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

Due to the transition methods chosen by the Company in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The effect of initially applying these standards is mainly attributed to the following:

- a decrease in impairment losses recognised on financial assets (Note 5);
- additional disclosures related to IFRS 9 (see Notes 4 and 5).

A. IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Company has applied consequential amendments to IAS 1 *Presentation of Financial Statements*, which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method. Previously, the Company disclosed this amount in notes to the financial statements.

Additionally, the Company has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been applied to the comparative information.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

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). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Company classifies financial assets under IFRS 9, see Note 3(d)(i).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Company classifies financial liabilities under IFRS 9, see Note 3(d)(i).

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' 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. For an explanation of how the Company applies the impairment requirements of IFRS 9, see Note 3(d)(iv).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented as at and for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2018 under IFRS 9.

  The Company used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest method' as a separate line item in the statement of profit or loss and other comprehensive income, the company changed the description of the line item 'interest income' reported in 2017 to 'interest income calculated using the effective interest method'.

- The following assessment has been made on the basis of the facts and circumstances that existed at the date of initial application.

  – The determination of the business model within which a financial asset is held.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

B. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 '*Revenue*', IAS 11 '*Construction Contracts and related interpretations*'.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). The timing or amount of the Company's income from contracts with customers was not impacted by the adoption of IFRS 15 and the transition did not have effect on the equity of the Company at 1 January 2018.

3 Significant accounting policies

Except for the changes disclosed in Note 2(e), the Company has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Interest

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3(d)(iv).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost.

Interest expense presented in the statement of profit or loss and other comprehensive income includes interest on financial liabilities measured at amortised cost.

Policy applicable before 1 January 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortized cost.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Company first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

(c) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

i. Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2023.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

Tax reimbursement is available for the current tax paid on the undistributed earnings in the years 2008-2017, if those earnings are distributed in 2019 or further years.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

ii. Deferred tax

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

(d) Financial assets and financial liabilities

i. Classification

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- 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 on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- 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.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or 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.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Financial assets – Policy applicable before 1 January 2018

The Company classified its financial assets into one of the following categories:

- loans and receivables;
- FVTPL.

Financial liabilities

The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

iii. Modification of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Company due to changes in the National Bank of Georgia (NBG) key rate, if the loan agreement entitles the Company to do so. The Company performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Company analogizes to the guidance on derecognition of financial liabilities.

The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that derecognition criteria are not usually met in such cases. The Company further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Note 3(d)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method (see Note 3(b)).

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Company performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Policy applicable before 1 January 2018

Financial assets

If the terms of a financial asset were modified, then the Company evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised (see Note 3(d)(ii)) and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate (see Note 3(d)(iv)).

Financial liabilities

The Company derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

iv. Impairment

See also Note 4.

Policy applicable from 1 January 2018

The Company recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities assets are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1’ financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as ‘Stage 2’ financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and ‘Stage 3’ financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows; and
  See also Note 4.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see Note 3(d)(iii)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired (referred to as ‘Stage 3 financial assets’). A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Death of borrower, liquidation of the borrower's company (if legal entity);
- Loans past due more than 90 days;
- Restructuring of the loan, linked with the economic loss;
- Bankruptcy proceedings and/or legal proceedings that may affect the company's ability to service its obligations;
- Fraud event or other force-majeure that may affect the company’s solvency.

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the

case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Impairment

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets, assets not carried at FVTPL, is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the restructuring of a loan by the Company on terms that the Company would not consider otherwise, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Company first assesses individually whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate.

Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows. In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data related to similar borrowers. In such cases, the Company uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Company writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(e) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and unrestricted current accounts held with banks with original maturities of less than three months. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(f) Loans to customers

Policy applicable from 1 January 2018

'Loans to customers' caption in the statement of financial position include loans to customers measured at amortized cost (see Note 3(d)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

Policy applicable before 1 January 2018

Loans to customers were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Company did not intend to sell immediately or in the near term.

Loans to customers included those classified as loans and receivables.

Loans to customers were initially measured at fair value and subsequently measured at their amortised cost using the effective interest method.

(g) Property and equipment and intangible assets

(i) Owned assets

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

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

- computers and hardware	3 years;
- office equipment	5 years;
- leasehold improvements	5 years;
- other	7 years.

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iii) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life is 10 years.

(h) Repossessed property

Repossessed property represents non-financial assets acquired by the Company in settlement of overdue loans. The assets are initially recognised at net book value of respective loan when acquired and included in other assets. Assets that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Such assets are generally measured at the lower of carrying amount and fair value less costs to sell. Impairment is considered both at the time of classification as held for sale and subsequently. Impairment loss is calculated based on the difference between the carrying amounts of the asset/disposal group and fair value less costs to sell. Any impairment loss that arises is recognised in profit or loss.

(i) Charter capital

(i) Charter capital

Charter capital comprises the capital of the Company authorized by shareholders at the Company's incorporation. Charter capital is classified as equity.

(ii) Dividends

The ability of the Company to declare and pay dividends is subject to the rules and regulations of the Georgian legislation.

Dividends are reflected as an appropriation of retained earnings in the period when they are declared.

(j) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value

at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(k) Comparative information

As a result of adoption of IFRS 9 the Company changed presentation of certain captions in the primary forms of financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the statement of financial position is disclosed in Note 5.

The effect of main changes in presentation of the statement of profit or loss and other comprehensive income for the year ended 31 December 2017 is as follows:

- “Interest income” line item was renamed by “Interest income calculated using the effective interest method” line item;
- “Impairment losses” line item was renamed by “Impairment losses on debt financial assets and loan commitments” line item.

(l) New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 with earlier application permitted; however, the Company has not early adopted them in preparing these financial statements, with the exception of the amendment to IFRS 9 affecting prepayment features with negative compensation issued in October 2017.

IFRS 16 - *Leases;*

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. IFRS 16 is not expected to have a material impact on the Company’s financial statements in the period of initial application.

Other standards

- IFRIC 23 *Uncertainty over Tax Treatments*;
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);*
- *Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards;*
- *Amendments to References to Conceptual Framework in IFRS Standards.*

The amended standards and interpretations are not expected to have a significant impact on the Company’s financial statements.

4 Financial risk review

This note presents information about the Company's exposure to financial risks. For information on the Company's financial risk management framework, see Note 17.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(d)(iv).

Significant increase in credit risk

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

The Company uses the following criteria for determining whether there has been a significant increase in credit risk:

- Its financial standing deteriorated and the exposure has been restructured, but did not result in significant economic loss;
- The exposure is overdue for more than 30 days past due; and
- Other weaknesses that the Company deems to have negative effect on borrower's performance.

Generating the term structure of PD (applicable to loans to customers)

Modelling of probability of default of loans is based on the collective analysis method for each segment of loan separately. According to definition of default, probability of default is based on historic monthly migration analysis in accordance with defaults in each segment for previous 3 years period. For the segments lacking historical data, the period differs depending on what period there are factual data.

For every segment, historical average monthly matrix was calculated and the probability of default for desired period was defined by extrapolation of the matrix (1 year and whole lifecycle).

Determining whether credit risk has increased significantly

The Company assesses whether credit risk has increased significantly since initial recognition at each reporting period. Definition of significant varies for different type of lending in particular between business and consumer segments. Company uses overdue status (more than 30 days) of the financial assets as a backstop indicator and other qualitative indicators to assess whether significant increase in credit risk has occurred.

Definition of default

The Company considers loan to be in default if any of the following criteria are met:

- Loans past due more than 90 days;
- Bankruptcy proceedings and/or legal proceedings that may affect the company's ability to service its obligations;
- Death of borrower, liquidation of the borrower's company (if legal entity);
- Fraud event or other force-majeure that may affect the borrower's ability to repay the loan.

Default status is assessed regularly (annually).

The Company should have a track record on which criteria loan was considered as default.

Incorporation of forward-looking

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

The Company uses expert judgment in assessment of forward-looking information. This assessment is based also on external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Company operates, such as the National Bank of Georgia.

The Company performed analysis to identify key drivers of credit risk for each portfolio of financial instruments and, using an analysis of historical data, estimated relationships between macro-economic variable and credit risk.

Among the tested macroeconomic parameters such as inflation, currency depreciation, none of them was proved to have statistically significant influence on portfolio probabilities of default. Historical correlations over the past 2 years did not show the relationship between macroeconomic factors and PD.

When the correlation is identified, based the historical correlation PD is adjusted by using Vasicek model. Vasicek model uses the correlation between macro parameter and PD estimated through least square regression and adjusts PD based on historical dependency according to the forecasted GDP.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(d)(iii).

The Company renegotiates loans to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. Under the Company's restructuring policy, the loan is restructured if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity and changing the timing of interest payments. Restructuring is a qualitative indicator of significant increase in credit risk. So the Company considers such client as non-standard and moves to stage 2.

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).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. Company further discounts EAD from default date to the reporting date.

The methodology of estimating PDs is discussed above under the heading "Generating the term structure of PD".

For the credit loss calculating purposes, the loss on loans is assessed collectively according to segments.

For loans to customers, the Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. Vintage approach is used to determine the percentage of recovered portfolio of defaulted loans through its lifetime. Such loans are grouped by the default years and repaid exposure is linked to each group. Statistical results are used to forecast the future recoveries for the newly defaulted portfolios. Finally, cash flows are discounted by the effective interest rates and divided by the default portfolio to calculate LGD.

Exposure at Default (EAD) represents the expected exposure in the event of a default. EAD is calculated based on average remaining maturity of these products, for each lifetime period separately. Historical behavior is observed to calculate the average default periods from the disbursement of the loan. Testing default within years showed that on average mid-year is the point of default. So that point is used to calculate the EAD by subtracting the scheduled principal repayments till the forecasted overdue date and add three months interest accrued from overdue date till the date when the loan becomes default.

Loss allowance

The following table show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				2017
GEL	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans to customers at amortised cost					
Balance at 1 January	43,908	58,715	93,628	196,251	90,192
Transfer to Stage 1	1,906	(1,157)	(749)	-	-
Transfer to Stage 2	(4,438)	5,563	(1,125)	-	-
Transfer to Stage 3	(4,448)	(3,328)	7,776	-	-
Net remeasurement of loss allowance	(26,040)	(10,153)	47,466	11,273	34,729
New financial assets originated	90,140	-	-	90,140	74,840
Transfer to Stage 2	(11,602)	11,602	-	-	-
Transfer to Stage 3	(37,952)	-	37,952	-	-
Balance at 31 December	**51,474**	**61,242**	**184,948**	**297,664**	**199,761**

The following table provides a reconciliation between amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument.

GEL	Loans to customers at amortised cost - retail customers	Total
Net remeasurement of loss allowance	11,273	11,273
New financial assets originated	90,140	90,140
Total	**101,413**	**101,413**

The significant changes in the gross carrying amount of loans measured at amortized cost contributed to changes in loss to customers are further explained below.

The high volume of loans originated during the period increased the gross carrying amount of the loans portfolio by GEL 2,208 thousand with a corresponding increase in loss allowance measured on a 12-month basis by GEL 94 thousand. The loans originated and repaid during the period amounted GEL 168 thousand with a corresponding decrease in loss allowance measured on a 12-month basis by GEL 4 thousands.

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost as at 31 December 2018. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: Stage 1, Stage 2, Stage 3, are included in Note 3(d)(iv).

	31 December 2018				31 December 2017
GEL	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans to customers at amortised cost – Business loans					
Not overdue	202,186	-	-	202,186	133,507
Overdue less than 30 days	-	-	-	-	26,962
Overdue more than 90 days	-	-	22,970	22,970	2,875
Overdue less than 90 (with restructure status)	-	237,534	-	237,534	397,103
Overdue more than 90 (with restructure status)	-	-	154,977	154,977	162,091
Total loans to customers gross retail	**202,186**	**237,534**	**177,947**	**617,667**	**722,538**
Loss allowance	**(6,274)**	**(27,057)**	**(66,265)**	**(99,596)**	**(63,741)**
Carrying amount	**195,912**	**210,477**	**111,682**	**518,071**	**658,797**

	31 December 2018				31 December 2017
GEL	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans to customers at amortised cost – Consumer loans collateralized by real estate					
Not overdue	1,289,264	-	-	1,289,264	1,657,774
Overdue less than 30 days	-	-	-	-	15,653
Overdue 30-60 days	-	29,082	-	29,082	7,564
Overdue more than 90 days	-	-	182,882	182,882	20,682
Overdue less than 90 (with restructure status)	-	379,968	-	379,968	519,368
Overdue more than 90 (with restructure status)	-	-	118,541	118,541	56,181
Total loans to customers gross retail	**1,289,264**	**409,050**	**301,423**	**1,999,737**	**2,277,222**
Loss allowance	**(9,114)**	**(17,640)**	**(70,039)**	**(96,793)**	**(25,640)**
Carrying amount	**1,280,150**	**391,410**	**231,384**	**1,902,944**	**2,251,582**

	31 December 2018				31 December 2017
GEL	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans to customers at amortised cost – Other consumer loans					
Not overdue	984,919	-	-	984,919	925,918
Overdue less than 30 days	109,324	-	-	109,324	61,880
Overdue 30-60 days	-	38,976	-	38,976	57,794
Overdue 60-90 days	-	43,304	-	43,304	19,524
Overdue more than 90 days	-	-	139,804	139,804	38,427
Overdue less than 90 (with restructure status)	-	98,429	-	98,429	140,216
Overdue more than 90 (with restructure status)	-	-	30,405	30,405	12,035
Total loans to customers gross retail	**1,094,243**	**180,709**	**170,209**	**1,445,161**	**1,255,794**
Loss allowance	**(36,086)**	**(16,545)**	**(48,644)**	**(101,275)**	**(110,380)**
Carrying amount	**1,058,157**	**164,164**	**121,565**	**1,343,886**	**1,145,414**

At 31 December 2018, the Company did not hold any financial instruments for which no loss allowance was recognised because of collateral.

The following table sets out information on loans to customers that are credit-impaired and related collateral held in order to mitigate potential losses as at 31 December 2018:

GEL	Gross carrying amount	Loss allowance	Carrying amount	Fair value of collateral held: Real estate	Fair value of collateral held: Total
Business loans	177,947	(66,265)	111,682	111,662	111,662
Consumer loans collateralized by real estate	301,423	(70,039)	231,384	231,223	231,223
Other consumer loans	170,209	(48,645)	121,564	-	-
Total credit-impaired loans to customers	**649,579**	**(184,949)**	**464,630**	**342,885**	**342,885**

The tables above excludes overcollateralization.

During the period, there was no change in the Company's collateral policies. For details, refer to Note 11(b).

5 Transition of IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets as at 1 January 2018.

GEL	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets					
Cash and cash equivalents	10	Loans and receivables	Amortised cost	371,860	371,860
Loans to customers	11	Loans and receivables	Amortised cost	4,055,793	4,059,303
Other financial assets	13	Loans and receivables	Amortised cost	56,615	56,615
Total financial assets				**4,484,268**	**4,487,778**
Financial liabilities					
Loans and borrowings	14	Amortized cost	Amortised cost	2,796,179	2,796,179
Other financial liabilities		Amortized cost	Amortised cost	29,352	29,352
Financial liabilities at FVTPL	15	FVTPL	FVTPL (mandatory)	7,866	7,866
Total financial assets				**2,833,397**	**2,833,397**

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

GEL	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Financial assets				
Amortised cost				
Cash and cash equivalents:	371,860	-	-	371,860
Loans to customers:				
Opening balance	4,055,793	-	-	-
Remeasurement	-	-	3,510	-
Closing balance	-	-	-	4,059,303
Other financial assets	56,615	-	-	56,615
Total amortised cost	**4,484,268**	**-**	**3,510**	**4,487,778**

As a result of adoption of IFRS 9 there were no reclassification or remeasurement of financial liabilities.

The following table summarises the impact, of transition to IFRS 9 on the opening balance of retained earnings. There is no impact on other components of equity.

GEL	Impact of adopting IFRS 9 at 1 January 2018
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	(830,663)
Recognition of expected credit losses under IFRS 9 for loans to customers	(3,510)
Opening balance under IFRS 9 (1 January 2018)	**(834,173)**

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	Impairment allowance and provisions			
GEL	31 December 2017 (IAS 39)	Reclassification	Remeasurement	1 January 2018 (IFRS 9)
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9 (includes loans to customers)	199,761	-	(3,510)	196,251
Total measured at amortised cost	**199,761**	**-**	**(3,510)**	**196,251**

6 Net interest income

GEL	2018	2017
Interest income calculated using the effective interest method		
Loans to customers	1,710,183	1,543,462
Interest expense		
Loans and borrowings	(363,178)	(355,170)
Net Interest income	**1,347,005**	**1,188,292**

7 Personnel expenses

GEL	2018	2017
Employee compensation	**314,189**	**294,733**

8 Other general administrative expenses

GEL	2018	2017
Professional services	79,865	74,680
Operating lease expense	73,800	72,280
Advertising and marketing	45,534	28,207
Office supplies	35,538	30,348
Communications and information services	13,760	10,467
Security	5,890	5,880
Other	27,417	27,038
	281,804	**248,900**

The professional fees above also include fees paid to the audit firms of about GEL 51,610, for the provision of audit and other professional services.

9 Taxation

GEL	2018	2017
Current year tax expense	81,383	82,674
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	12,855	(14,077)
Total income tax expense	**94,238**	**68,597**

In 2018 the applicable tax rate for current and deferred tax is 15% (2017: 15%).

Reconciliation of effective tax rate for the year ended 31 December:

GEL	2018	%	2017	%
Profit before tax	632,728		450,412	
Income tax at the applicable tax rate	94,909	15.0	67,562	15.0
(Non-taxable income)/non-deductible expenses	(671)	(0.1)	1,035	0.2
	94,238	**14.9**	**68,597**	**15.2**

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2018 and 2017.

Movements in temporary differences during the years ended 31 December 2018 and 2017 are presented as follows.

2018 GEL	1 January 2018	Recognized in profit or loss	31 December 2018
Loans to customers	25,815	(14,944)	10,871
Property, equipment and intangible assets	(1,792)	2,620	828
Loans and borrowings	2,890	(531)	2,359
	26,913	**(12,855)**	**14,058**

2017 GEL	1 January 2017	Recognized in profit or loss	31 December 2017
Loans to customers	12,524	13,291	25,815
Property, equipment and intangible assets	(2,632)	840	(1,792)
Loans and borrowings	2,944	(54)	2,890
	12,836	**14,077**	**26,913**

(b) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

GEL	Assets		Liabilities		Net	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Loans to customers	10,871	25,815	-	-	10,871	25,815
Property, equipment and intangibles	828	-	-	(1,792)	828	(1,792)
Loans and borrowings	2,359	2,890	-	-	2,359	2,890
Net tax assets (liabilities)	**14,058**	**28,705**	**-**	**(1,792)**	**14,058**	**26,913**

The management believes that recognition of deferred tax assets is appropriate as management considers it probable that future taxable profits would be available against which the deferred tax assets can be utilised.

10 Cash and cash equivalents

GEL	2018	2017
Cash on hand	75,441	51,741
Bank balances	663,618	371,860
Total cash and cash equivalents	**739,059**	**423,601**

No cash and cash equivalents are impaired or past due. All of the Company's bank balances are with the banks rated by Fitch as BB-, B+, B.

As at 31 December 2018 the Company allocates cash equivalents under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (1 January 2018: Stage 1). Bank balances are individually assessed for impairment. Management estimates that ECL is immaterial at reporting dates.

As at 31 December 2018, Bank of Georgia's balance is 23% of total equity. As at 31 December 2017, TBC Bank's balance was 12% of the Company's total equity.

11 Loans to customers

GEL	2018	2017
Loans to individuals		
Business loans	617,666	722,538
Consumer loans collateralized by real estate	1,999,737	2,277,223
Other consumer loans	1,445,162	1,255,793
Total loans to customers	**4,062,565**	**4,255,554**
Gross loans to customers	4,062,565	4,255,554
Loss allowance	(297,664)	(199,761)
Net loans to customers	**3,764,901**	**4,055,793**

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

GEL	2018	2017
Balance at the beginning of the year	199,761	90,192
Adjustment on initial application of IFRS 9	(3,510)	-
Restated balance as at 1 January	**196,251**	**90,192**
Net charge	101,413	109,569
Balance at the end of the year	**297,664**	**199,761**

(a) Key assumptions and judgments for estimating loan impairment

(i) Loans to customers

Key assumptions used by the Company in estimation of the expected credit loss on loans to customers are as follows:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

Change in these estimate by 10% increase/decrease could affect the expected credit loss on loans to customers for 2018 as follows:

- probability of default (PD) – 29,736 GEL ;
- loss given default (LGD) – 29,736 GEL ;
- exposure at default (EAD) – 29,736 GEL .

(b) Analysis of collateral and other credit enhancements

(i) Loans to customers

The following table provides the analysis of the collateral as at 31 December 2018, net of impairment:

GEL	Loans to customer, carrying amount	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral not determined
Loans without signs of impairment (stage 1)			
Real estate	1,422,903	1,422,903	-
Motor vehicles	4,369	4,369	-
Third party guarantee	1,106,947	-	1,106,947
Total loans without signs of impairment (stage 1)	**2,534,219**	**1,427,272**	**1,106,947**
Overdue or impaired loans (stage 2 or 3)			
Real estate	944,466	944,466	-
Third party guarantee	286,055	-	286,055
Loans without collateral	161	-	161
Total overdue or impaired loans (stage 2 or 3)	**1,230,682**	**944,466**	**286,216**
Total loans to customers	**3,764,901**	**2,371,738**	**1,393,163**

The following table provides the analysis of the collateral as at 31 December 2017, net of impairment:

GEL	Loans to customer, carrying amount	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral not determined
Loans without signs of impairment			
Real estate	2,670,283	2,670,283	-
Motor vehicles	8,546	8,546	-
Third party guarantee	1,019,138	-	1,019,138
Loans without collateral	1,013	-	1,013
Total loans without signs of impairment	**3,698,980**	**2,678,829**	**1,020,151**
Overdue or impaired loans			
Real estate	129,400	129,400	-
Third party guarantee	134,258	-	134,258
Loans without collateral	93,155	-	93,155
Total overdue or impaired loans	**356,813**	**129,400**	**227,413**
Total loans to customers	**4,055,793**	**2,808,229**	**1,247,564**

The tables above are presented on the basis of excluding overcollateralization.

Loans with collateral are mainly secured by real estate and sureties.

The recoverability of loans which are neither past due nor credit-impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Company does not necessarily update the valuation of collateral as at each reporting date.

The Company's policy is to issue loans collateralised by real estate with a loan-to-value ratio at the date of loan issuance to be maximum 50%. Due to the low loan-to-value ratio, the management does not expect any negative movements in market prices to have a significant impact on recoverability of the loans. Loans collateralised by real estate comprise more than 63% of the total portfolio as at 31 December 2018 (2017: 69%).

Loans issued with sureties and/or third party guarantees received from individuals are presented as other consumer loans.

(ii) Repossessed collateral

During the year ended 31 December 2018, the Company has obtained assets of GEL 148,404 by taking possession of collateral for loans to customers (2017: GEL 26,139). As at 31 December 2018 the repossessed assets GEL 174,904 (2017: GEL 26,500) are presented separately in the statement of financial position.

The Company's policy is to sell these assets as soon as it is practicable.

(iii) Assets under lien

As at 31 December 2018, loans to customers with a gross amount of GEL 1,230,089 (2017: GEL 1,146,369) with underlying collaterals serve as collateral for loans and borrowings from financial institution.

(c) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located in Tbilisi and Gori, Georgia who operate in the following economic sectors:

GEL	2018	2017
Loans to individuals		
Consumer loans	2,196,441	1,627,765
Services	438,970	663,581
Retail trade	239,852	629,958
Agriculture	106,581	109,627
Manufacturing	54,935	81,693
Transportation	4,190	6,211
Others	723,932	936,958
Total loans to customers	**3,764,901**	**4,055,793**

(d) Significant credit exposures

As at 31 December 2018 no individual loan balances or groups of connected borrowers' balances exceed 10% of equity (2017: nil).

(e) Loan maturities

The maturity of the loan portfolio is presented in note 17(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

12 Property, equipment and intangible assets

GEL	Computers and hardware	Office equipment	Intangible assets	Leasehold improvements	Other	Total
Cost						
Balance at 1 January 2018	14,213	80,263	52,356	41,286	917	189,035
Balance at 31 December 2018	**14,213**	**80,263**	**52,356**	**41,286**	**917**	**189,035**
Depreciation and amortization						
Balance at 1 January 2018	(12,886)	(55,995)	(18,923)	(28,212)	(447)	(116,463)
Depreciation and amortization for the year	(561)	(13,319)	(5,236)	(8,257)	(131)	(27,504)
Balance at 31 December 2018	**(13,447)**	**(69,314)**	**(24,159)**	**(36,469)**	**(578)**	**(143,967)**
Carrying amount at 31 December 2018	**766**	**10,949**	**28,197**	**4,817**	**339**	**45,068**
Cost						
Balance at 1 January 2017	14,213	80,263	39,509	41,286	917	176,188
Additions	-	-	12,847	-	-	12,847
Balance at 31 December 2017	**14,213**	**80,263**	**52,356**	**41,286**	**917**	**189,035**
Depreciation and amortization						
Balance at 1 January 2017	(10,756)	(40,485)	(14,223)	(19,955)	(316)	(85,735)
Depreciation and amortization for the year	(2,130)	(15,510)	(4,700)	(8,257)	(131)	(30,728)
Balance at 31 December 2017	**(12,886)**	**(55,995)**	**(18,923)**	**(28,212)**	**(447)**	**(116,463)**
Carrying amount at 31 December 2017	**1,327**	**24,268**	**33,433**	**13,074**	**470**	**72,572**

13 Other assets

GEL	2018	2017
Cash restricted for contracts of financial instruments at fair value (note 15)	24,794	36,615
Receivable from shareholders	12,000	20,000
Total other financial assets	**36,794**	**56,615**
Prepayments	61,242	49,547
Total other non-financial assets	**61,242**	**49,547**
Total other assets	**98,036**	**106,162**

14 Loans and borrowings

This note provides information about the contractual terms of interest-bearing loans and borrowings which are measured at amortized cost. For more information about exposure to interest rate, foreign currency and liquidity risks, see note 17(d).

GEL	2018	2017
Non-current Liabilities		
Secured loans from financial institutions	1,279,246	1,389,232
Unsecured loans from financial institutions	-	259,220
Unsecured loans from related parties	882,743	583,245
Unsecured loans from individuals	-	53,218
	2,161,989	**2,284,915**
Current Liabilities		
Secured loans from financial institutions	2,734	13,359
Unsecured loans from financial institutions	312,818	130,479
Unsecured loans from related parties	97,939	366,990
Unsecured loans from individuals	15,112	436
	428,603	**511,264**
Total loans and borrowings	**2,590,592**	**2,796,179**

As at 31 December 2018, loans to customers serve as collateral for loans and borrowings from financial institution (note 11(b)(iii)).

The Company has unused credit line facility of GEL 620,754 from JSC Bank of Georgia.

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans as at 31 December 2018 are as follows:

				31 December 2018	
GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Secured loans from financial institutions	GEL	13%	2020	1,281,980	1,281,980
Unsecured loans from related parties	USD	13%	2019-2023	980,682	980,682
Unsecured loans from financial institutions	USD	12.6%	2019	312,818	312,818
Unsecured loans from individuals	GEL	13%	2019	15,112	15,112
Total interest-bearing liabilities				**2,590,592**	**2,590,592**

Terms and conditions of outstanding loans as at 31 December 2017 are as follows:

				31 December 2017	
GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Secured loans from financial institutions	GEL	13%	2020	1,402,591	1,402,591
Unsecured loans from related parties	USD	13%	2018-2019	950,235	950,235
Unsecured loans from financial institutions	USD	12.6%-13%	2018-2019	389,699	389,699
Unsecured loans from individuals	USD	13%	2019	27,441	27,441
Unsecured loans from individuals	GEL	13%	2019	26,213	26,213
Total interest-bearing liabilities				**2,796,179**	**2,796,179**

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities

GEL	2018	2017
Balance at 1 January	**2,796,179**	**3,067,505**
Proceeds from borrowed funds	2,111,327	5,575,712
Repayment of borrowed funds	(2,343,629)	(5,759,780)
Interest expense	363,178	355,170
Interest paid	(370,302)	(354,964)
Effect of changes in foreign exchange rates	33,839	(87,464)
Balance at 31 December	**2,590,592**	**2,796,179**

15 Financial instruments at fair value through profit or loss

GEL	2018	2017
ASSET		
Derivative financial instruments		
Foreign currency contracts	**5,950**	**-**
LIABILITY		
Derivative financial instruments		
Foreign currency contracts	**-**	**7,866**

Financial instruments at fair value through profit or loss comprise foreign currency contracts. No financial assets at fair value through profit or loss are past due.

Foreign currency contracts

The table below summarizes, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2018, with details of the weighted average contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates in effect at the reporting date. The resultant unrealized gains and losses on these unmatured contracts are recognized in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
GEL	**2018**	**2017**	**2018**	**2017**
Buy USD sell GEL				
Less than 3 months			2.62	2.66
Outflow	*(275,093)*	*(293,008)*		
Inflow	*281,043*	*285,142*		
Net position	**5,950**	**(7,866)**		

16 Equity

(a) Charter capital

Charter capital represents the nominal amount of capital in the founding documentation of the Company.

GEL	2018	2017
Issued and paid charter capital	988,000	980,000
Unpaid charter capital	12,000	20,000
Total authorised charter capital as at 31 December	**1,000,000**	**1,000,000**

As at 31 December 2018 the Company has GEL 12,000 (2017: GEL 20,000) as a receivable from its shareholders (see note 13), as according to Georgian legislation the Company's Charter is a legally binding agreement between the partners (shareholders and the Company). The Charter defines payment terms and the amount of the unpaid charter capital.

(b) Dividends

In accordance with Georgian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS. As at 31 December 2018 the Company had retained earnings of GEL 1,181,609 (2017: GEL 830,663).

In 2018, dividends of GEL 191,054 were declared and paid to shareholders (2017: GEL 167,368).

17 Risk management, corporate governance and internal control

Management of risk is fundamental to the business and is an essential element of the Company's operations. The major risks faced by the Company are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyze and manage the risks faced by the Company, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Supervisory Board, together with its committees, has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Company's Supervisory Board and CEO are responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. The CEO is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Supervisory Board.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk for the Company arises from open positions in interest rate financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments as at 31 December 2018 is as follows:

GEL	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
31 December 2018						
ASSETS						
Cash and cash equivalents	663,618	-	-	-	-	663,618
Loans to customers	369,582	98,066	466,545	2,584,135	246,573	3,764,901
Other financial assets	36,794	-	-	-	-	36,794
	1,069,994	**98,066**	**466,545**	**2,584,135**	**246,573**	**4,465,313**
LIABILITIES						
Loans and borrowings	(105,791)	-	(322,809)	(2,161,992)	-	(2,590,592)
	964,203	**98,066**	**143,736**	**422,143**	**246,573**	**1,874,721**

A summary of the interest gap position for major financial instruments as at 31 December 2017 is as follows:

GEL	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
31 December 2017						
ASSETS						
Cash and cash equivalents	371,860	-	-	-	-	371,860
Loans to customers	245,230	15,921	925,711	2,581,764	287,167	4,055,793
Other financial assets	20,000	36,615	-	-	-	56,615
	637,090	**52,536**	**925,711**	**2,581,764**	**287,167**	**4,484,268**
LIABILITIES						
Loans and borrowings	(187,758)	(220,337)	(103,170)	(2,284,914)	-	(2,796,179)
	449,332	**(167,801)**	**822,541**	**296,850**	**287,167**	**1,688,089**

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2018 and 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2018 Average effective interest rate, %		2017 Average effective interest rate, %	
	GEL	USD	GEL	USD
Interest bearing assets				
Loans to customers	36%	24%	43%	25%
Interest bearing liabilities				
Loans from individuals	13%	13%	13%	13%
Loans from financial institutions	13%	12.8%	13%	12.8%

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed interest rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit and loss.

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2018 and 2017, is as follows:

	2018	2017
100 bp parallel fall	(2,828)	(5,034)
100 bp parallel rise	2,828	5,034

(ii) Currency risk

The Company has assets and liabilities denominated in USD. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the currency exposure structure of financial assets and liabilities as at 31 December 2018:

GEL	GEL	USD	Total
ASSETS			
Cash and cash equivalents	88,091	575,527	663,618
Loans to customers	2,858,754	906,147	3,764,901
Other financial assets	12,000	24,794	36,794
Total assets	**2,958,845**	**1,506,468**	**4,465,313**
LIABILITIES			
Loans and borrowings	(1,297,092)	(1,293,500)	(2,590,592)
Net position	**1,661,753**	**212,968**	**1,874,721**
The effect of derivatives held for risk management	**(275,093)**	**281,043**	**5,950**
Net position after derivatives held for risk management purposes	**1,386,660**	**494,011**	**1,880,671**

The following table shows the currency exposure structure of financial assets and liabilities as at 31 December 2017:

GEL	GEL	USD	Total
ASSETS			
Cash and cash equivalents	122,490	249,370	371,860
Loans to customers	2,406,643	1,649,150	4,055,793
Other financial assets	20,000	36,615	56,615
Total assets	**2,549,133**	**1,935,135**	**4,484,268**
LIABILITIES			
Loans and borrowings	(1,428,804)	(1,367,376)	(2,796,180)
Net position	**1,120,329**	**567,759**	**1,688,088**
The effect of derivatives held for risk management	**(293,008)**	**285,142**	**(7,866)**
Net position after derivatives held for risk management purposes	**827,321**	**852,901**	**1,680,222**

The following significant exchange rates were applied during the year:

in GEL	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
USD 1	2.5345	2.5086	2.6766	2.5922

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2018 and 2017, would have increased/(decreased) profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

GEL	2018	2017
10% appreciation of USD against GEL	41,991	72,497

A strengthening of the GEL against the above currencies at 31 December 2018 and 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Company has policies and procedures for the management of credit exposures, including the establishment of a Credit Committee, the analytical bodies responsible for analyzing the information in the loan applications, assessing and reducing the credit risks. The credit policy (in the form of the Credit Manual) is reviewed and approved by the Supervisory Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

The Credit Committee is authorized to make the final decision about financing or rejecting the loan applications. The loans presented to the Committee for approval are based on limits established by the credit policy.

Accuracy and correctness of information presented to the Credit Committee is the responsibility of the credit officer, who fills in the initial application after the due scrutiny of the applicant's business and its credit risks through application data verification procedures. Eventually the Credit Committee members assess the application against the established criteria (applicant's credit history, financial condition, competitive ability, etc.).

Assessment of the applicant's creditworthiness through monitoring of its business allows timely avoidance the risk of financial loss. Monitoring is performed by credit officers who report the results to the CEO. Regular monitoring of loans is also performed by CEO. The monitoring system helps to manage credit risks and to minimize them in a timely manner.

Exposure to credit risk is also managed by obtaining collateral and personal guarantees. Collateral is one of the main safeguards of the Company in terms of credit risk. Company has a conservative strategy to give all standard loans based on adequate collateral which is assessed either by Credit expert, where observable market data is available for a provided property, or an independent valuation company when the collateral is such that no active market exists for it.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk and Legal Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

GEL	2018	2017
ASSETS		
Loans to customers	3,764,901	4,055,793
Bank balances	663,618	371,860
Financial assets at FVTPL	5,950	-
Other financial assets	36,794	56,615
Total maximum exposure	**4,471,263**	**4,484,268**

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 11.

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

Liquidity position is monitored by the CEO and Supervisory Board. Decisions on liquidity management are made by the Supervisory Board and implemented by the CEO.

The following tables show the undiscounted cash flows on financial liabilities and on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liabilities.

The maturity analysis for financial liabilities as at 31 December 2018 is as follows:

GEL	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Total gross amount outflow	Carrying amount
Non-derivative financial liabilities						
Loans and borrowings	186,151	188,568	366,686	2,682,923	3,424,328	2,590,592
Derivative financial liabilities						
Financial instruments at fair value through profit or loss						
Outflow	*275,093*	-	-	-	*275,093*	*275,093*
Inflow	*(281,043)*	-	-	-	*(281,043)*	*(281,043)*
Total financial liabilities	**180,201**	**188,568**	**366,686**	**2,682,923**	**3,418,378**	**2,584,642**

The maturity analysis for financial liabilities as at 31 December 2017 is as follows:

GEL	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Total gross amount outflow	Carrying amount
Non-derivative financial liabilities						
Loans and borrowings	490,857	115,656	213,835	2,571,314	3,391,662	2,796,179
Derivative financial liabilities						
Financial instruments at fair value through profit or loss						
Outflow	*293,008*	-	-	-	*293,008*	*293,008*
Inflow	*(285,142)*	-	-	-	*(285,142)*	*(285,142)*
Total financial liabilities	**498,723**	**115,656**	**213,835**	**2,571,314**	**3,399,528**	**2,804,045**

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2018:

GEL	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	739,059	-	-	-	-	-	-	739,059
Loans to customers	167,748	98,066	466,545	2,584,135	246,573	-	201,834	3,764,901
Property, equipment and intangible assets	-	-	-	-	-	45,068	-	45,068
Deferred tax assets	-	-	-	-	-	14,058	-	14,058
Financial instruments at fair value through profit or loss	5,950	-	-	-	-	-	-	5,950
Repossessed assets	-	-	-	-	-	174,904	-	174,904
Other assets	51,484	-	-	-	-	46,552	-	98,036
Total assets	**964,241**	**98,066**	**466,545**	**2,584,135**	**246,573**	**280,582**	**201,834**	**4,841,976**
Liabilities								
Loans and borrowings	105,791	-	322,809	2,161,992	-	-	-	2,590,592
Current tax liability	-	46,191	-	-	-	-	-	46,191
Other liabilities	23,584	-	-	-	-	-	-	23,584
Total liabilities	**129,375**	**46,191**	**322,809**	**2,161,992**	**-**	**-**	**-**	**2,660,367**
Net position	**834,866**	**51,875**	**143,736**	**422,143**	**246,573**	**280,582**	**201,834**	**2,181,609**

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2017:

GEL	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	423,601	-	-	-	-	-	-	423,601
Loans to customers	151,206	15,921	925,711	2,581,764	287,167	-	94,024	4,055,793
Property, equipment and intangible assets	-	-	-	-	-	72,572	-	72,572
Deferred tax assets	-	-	-	-	-	26,913	-	26,913
Repossessed assets	-	-	-	-	-	26,500	-	26,500
Other assets	23,377	36,615	-	-	-	46,170	-	106,162
Total assets	**598,184**	**52,536**	**925,711**	**2,581,764**	**287,167**	**172,155**	**94,024**	**4,711,541**
Liabilities								
Financial instruments at fair value through profit or loss	-	7,866	-	-	-	-	-	7,866
Loans and borrowings	187,758	220,337	103,170	2,284,914	-	-	-	2,796,179
Current tax liability	-	47,481	-	-	-	-	-	47,481
Other liabilities	29,352	-	-	-	-	-	-	29,352
Total liabilities	**217,110**	**275,684**	**103,170**	**2,284,914**	**-**	**-**	**-**	**2,880,878**
Net position	**381,074**	**(223,148)**	**822,541**	**296,850**	**287,167**	**172,155**	**94,024**	**1,830,663**

18 Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of charter capital and retained earnings.

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 dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt.

The debt to capital ratio at the end of the reporting period is as follows:

GEL	2018	2017
Total liabilities	2,660,367	2,880,878
Less cash and cash equivalents	739,059	423,601
Net debt	**1,921,308**	**2,457,277**
Total equity	2,181,609	1,830,663
Debt to capital ratio	**0.9**	**1.3**

In accordance with the existing legislation of Georgia, the Company has to maintain issued capital of not less than GEL 1,000 thousand. The Company was in compliance with this requirement at 31 December 2018 and 2017.

19 Contingencies

(a) Insurance

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

In the ordinary course of business, the Company is subject to legal actions and complaints. 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.

(c) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

20 Related party transactions

Company does not have an ultimate controlling party. As at 31 December 2018 and 2017 shareholders of the Company are as follows:

As at 31 December 2018:
Sophio Devdariani – 40%;
Natalia Kekelidze – 30%;
Zurab Akhalaia – 30%.

As at 31 December 2017:
Sophio Devdariani – 40%;
Natalia Kekelidze – 30%;
Zurab Akhalaia – 30%.

(a) Transactions with the members of the Supervisory Board and Management Board

Total remuneration included in personnel expenses (note 7) for the year ended 31 December 2018 and 2017 is as follows:

GEL	2018	2017
Employee compensation	**125,500**	**120,375**

(b) Transactions with other related parties

The outstanding balances and related profit or loss amounts of transactions for the year ended 31 December with other related parties are as follows:

GEL	Notes	Shareholders 2018	Shareholders 2017
Statement of financial position			
ASSETS			
Loans to customers	11	-	5,705
Other financial assets	13	12,000	20,000
LIABILITIES			
Loans and borrowings	14	(980,682)	(950,235)
Profit (loss)			
Interest expense		(120,199)	(118,967)
Interest Income		746	1,669

Transactions with related parties are not secured.

21 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Company has determined fair values using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model.

The Company estimates the fair value of financial assets and liabilities to be not materially different from their carrying values.

22 Events after the reporting period

In 2019 shareholders of the Company made a decision to declare dividends of GEL 43,000 and GEL 36,000 based on the 2018 Q4 and 2019 Q1 financial performance results, respectively. The whole amount was paid to shareholders as of the date of these financial statements.

New loans were borrowed from a foreign financial institution, of USD 33,000 with 12.63% annual interest rate, maturing in February 2020 and of USD 30,000 with 12.63% annual interest rate, maturing in May 2020.

Besides, the maturity of credit line agreement with JSC Bank of Georgia was extended from July 2020 to February 2022.