# LLC Express Capital +
# Financial Statements
# For the Year Ended December 31, 2018
# and
# Independent Auditor's Report

**LLC Express Capital +**
**Financial Statements**
**For the Year Ended December 31, 2018**
**Amounts presented in GEL**

**Contents**



The last page of the Financial Statements is 25

## STATEMENT OF MANAGEMENT's RESPONSIBILITY

Management of LLC Microfinance Organisation Express Capital + is responsible for the accompanying financial statements

This responsibility includes:

• preparation of financial statements in accordance with International Financial Reporting Standards;
• selection of suitable accounting policies and their consistent application;
• making judgments and estimates which are reasonable and prudent;
• preparation of the financial statements on the going concern basis, unless circumstances make this inappropriate;

Management is also responsible for:

• creation, implementation and maintaining effective internal control system;
• keeping proper accounting records in compliance with local regulations;
• taking such steps as are reasonably open to them to safeguard the assets of the company;
• prevention and detection of fraud and other irregularities.

The financial statements for the year ended December 31, 2018 were approved by the management and signed on its behalf:

| | |
|---|---|
| Jansughi Zeishvili | Nino Jortmenadze |
| Executive Director | Chief Accountant |
| LLC Express Capital + | |

Date: June 11, 2019

MOORE STEPHENS

Moore Stephens ABC, LLC
6 Marjanishvili Str. 0102, Tbilisi, Georgia
T +995 32 2 000 123
E info@moorestephens.ge
www.moorestephens.com

**INDEPENDENT AUDITORS' REPORT**

**To the Management of LLC Express Capital +**

***Qualified opinion***

We have audited the financial statements of LLC Express Capital + (the "Company") which comprise the statement of financial position as at December 31, 2018 and the statement of comprehensive income, statement of changes in equiy and statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects the financial position of the Company as at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

***Basis for Qualified Opinion***

During the audit process of the Company we found out that Company's allowance model for Expected Credit Loss (ECL) doesn't correspond to the requirments of IFRS 9 ("Financial Instruments"), in particular: the Company uses National Bank of Georgia's (NBG) standard rates for overdue loans in order to group loans (Loan Staging), which is not the complete model in comparison to the instructions described in IFRS, which uses for the model not only the number of overdue days, but also many other criterias, like: change of credit rating, restructuring, tax audit, prepayment of loans, liquidity and etc. Moreover the standard rates used by company does not comprise of such complex parameters as: Probability of default (PD), Loss given default (LGD) and Exposure at default (EAD). The absence of this parameters in the model implies that allowance policy of the Company does not comprise the forecasted macroeconomic information, which is one of the main requirment of IFRS 9.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Boards for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirments that are relevant to uor audit of the financial statements in Georgia; and we have fulfilled our other ethical responsibilities in accordance with these requirments and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information**

Management is responsible for Other Information. Other Information contains information that is included in the Management report, but does not imply financial statements and our opinion regarding them. Probably, Management report will be available for us after the issuance of our audit opinion.

Our opinion about financial statements doesn't include abovementioned Other Information and we don't express any kind of assurance regarding it.

Our responsibility regarding to the audit of the financial statements implies that we have to familiarize with abovementioned Other Information and discuss is this information substantionally unsuitable with financial statements or with information that we obtained during the audit or does it leave any kind of impression that it might be substantionally false.

***Responsibilities of Management and Those Charged with Governancefor the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (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.

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’ Responsibility for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 raud is higher than for one resuting from error, as fraud may involve collusion, forgery, intentional ommisiions, misrepresentation, 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, if any, and related disclosures made by management.

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

• Evaluate the overall presentation, structure and content of the financial statement, incuding the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

### *Auditors’ Responsibility for the Audit of the Financial Statements (Continued)*

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.

**Mikheil Abaiadze / Certified Auditor / Partner**

*Audit firm registration number: SARAS-F-320544*
*Auditor's registration number: SARAS-A-865011*

**Date:** 11-Jun-19
**Tbilisi, Georgia**

## STATEMENT OF FINANCIAL POSITION

| | Note | 31-Dec-18 | 31-Dec-17 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 6 | 130,219 | 81,561 |
| Loans to customers | 7 | 1,433,675 | 829,232 |
| Property and equipment | 8 | 264,256 | 75,034 |
| Intangibles | 9 | 100,392 | 110,075 |
| Tax assets | | 44,073 | 14,912 |
| Other assets | | 61,632 | 65,332 |
| **Total assets** | | **2,034,247** | **1,176,146** |
| **LIABILITIES** | | | |
| Loans and borrowings | 10 | 1,256,794 | 657,806 |
| Income tax payable | | - | 6,034 |
| Other Liabilities | 11 | 43,946 | 72,607 |
| **Total liabilities** | | **1,300,740** | **736,447** |
| **EQUITY** | | | |
| Share capital | 12 | 500,550 | 385,550 |
| Retained earnings | | 232,957 | 54,149 |
| **Total equity** | | **733,507** | **439,699** |
| **Total liabilities and equity** | | **2,034,247** | **1,176,146** |

Jansughi Zeishvili — Nino Jortmenadze

Executive Director — Chief Accountant

LLC Express Capital +

Date: June 11, 2019

## STATEMENT OF COMPREHENSIVE INCOME

| | Note | 2018 | 2017 |
|---|---|---|---|
| Interest income | | 552,058 | 494,366 |
| Interest expense | | (107,537) | (88,287) |
| **Net interest income** | | **444,521** | **406,079** |
| Income from fines | | 199,609 | 225,805 |
| Profit/loss on currency trade operations | | (2,274) | (34,161) |
| Fee and commission income, NET | | 34 | 5,102 |
| Other income | | 13,822 | 47,862 |
| **Operating income** | | **655,712** | **650,687** |
| Operating and admin expenses | 13 | (356,528) | (319,744) |
| Depreciation and amortization | 8; 9 | (33,852) | (30,534) |
| Income/expense from loan loss reserve | 7 | 35,229 | (188,057) |
| Other expenses | | (3,282) | (6,758) |
| **Profit before income tax** | | **297,279** | **105,594** |
| Income tax | | (40,248) | (6,034) |
| **Net profit/loss for the year** | | **257,031** | **99,560** |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the year / (expenses)** | | **257,031** | **99,560** |

Jansughi Zeishvili — Nino Jortmenadze

Executive Director — Chief Accountant

LLC Express Capital +

Date: June 11, 2019

## STATEMENT OF CASH FLOWS

| | 2018 | 2017 |
|---|---|---|
| **Cash Flow from Operating Activities** | | |
| Profit / loss for the period | 297,279 | 99,560 |
| Added: | | |
| Depreciation of fixed assets | 33,852 | 30,534 |
| Changes in allowance for Expected Credit Loss | (35,229) | 188,057 |
| Interest expense | 107,537 | 88,287 |
| Increase / (decrease) in loans issued | (569,214) | (495,320) |
| Increase / (decrease) in other current assets | (25,461) | (61,729) |
| Decrease / (increase) in other current liabilities | (28,661) | (37,407) |
| | **(219,897)** | **(188,018)** |
| Payment of interest expense | (102,077) | (84,514) |
| Payment of income tax | (46,283) | - |
| **Cash Flow from Operating Activities** | **(368,257)** | **(272,532)** |
| **Cash Flow from Investing Activities** | | |
| Acquisition of fixed assets | (210,393) | (5,496) |
| Acquisition of intangible assets | (3,000) | - |
| Change in capital | 115,000 | 385,000 |
| **Cash Flow from Investing Activities** | **(98,393)** | **379,504** |
| Borrowings | 593,531 | 18,550 |
| Dividends paid | (78,223) | (79,947) |
| **Cash Flow from Financing Activities** | **515,308** | **(61,397)** |
| **Net increase / (decrease) in cash and cash equivalents** | **48,658** | **45,575** |
| **Cash and cash equivalents at the beginning of the reporting period** | **81,561** | **35,986** |
| **Casg and cash equivalents at the end of the reporting period** | **130,219** | **81,561** |

Jansughi Zeishvili — Nino Jortmenadze

Executive Director — Chief Accountant

LLC Express Capital +

Date: June 11, 2019

## STATEMENT OF CHANGES IN EQUITY

| | Share capital | Retained earnings | Total equity |
|---|---|---|---|
| **Balance as at 31-Dec-2016** | **550** | **34,536** | **35,086** |
| Share xapital | 385,000 | - | 385,000 |
| Retained earnings / (loss) | - | 99,560 | 99,560 |
| Dividends paid | - | (79,947) | (79,947) |
| **Balance as at 31-Dec-2017** | **385,550** | **54,149** | **439,699** |
| Additions to share capital | 115,000 | - | 115,000 |
| Profit for the period / (loss) | - | 257,031 | 257,031 |
| Dividends paid | - | (78,223) | (78,223) |
| **Balance as at 31-Dec-2018** | **500,550** | **232,957** | **733,507** |

Jansughi Zeishvili

Executive Director

LLC Express Capital +

Date: June 11, 2019

Nino Jortmenadze

Chief Accountant

## Note 1 The Company and its Principal Activities

LLC Express Capital + (referred to as "the Company") was registered on August 21, 2014. Legal address of the company is 46, #86a, Gorgiladze str., Batumi, Georgia.

Main activity of the Company is issuing micro loans for entrepreneur individuals and entities. The company mainly issues non-secured loans. According to the legislation applicable to the loans issued by the company, the upper limit of the amount is equal to one hundred thousand GEL on one loan.

Founder of MFO LLC Express Capital + is:

| Founder | 31-Dec-18 | 31-Dec-17 |
|---|---|---|
| Jansughi Zeishvili | 100% | 100% |
| | **100%** | **100%** |

## Note 2 Operating Environment of the Company

The Company operates in Georgia. In Georgia the microfinance organizations are under certain regulations of National Bank of Georgia. These regulations include minimum capital requirements (minimum GEL 500 thousand fully paid in cash until September 1, 2018) and requirement to publish financial statements prepared in accordance with IFRS. Microfinance organizations in Georgia currently are not allowed to receive deposits from clients and to issue loans exceeding GEL 100 thousand (in 2017 the upper limit was GEL 50 thousand).

Emerging economies, such as the Georgian economy, are subject to rapid change and are vulnerable to market conditions and economic downturns elsewhere in the world. As a consequence, operations in Georgia may be exposed to certain risks that are not typically associated with those in developed markets. Nevertheless, over the last few years the Georgian government has changed number of civil, criminal, tax, administrative and commercial laws that have positively affected the overall investment climate of the country. Georgia has an international reputation as a country with a favorable investment environment. Georgia has low level of corruption as demonstrated by Transparency International 2016 Global Corruption Barometer.

## Note 3 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Company maintains its accounting records in accordance with Georgian accounting and tax regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with IFRS.

These financial statements have been prepared in national currency of Georgia, Georgian Lari (GEL).

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management’s best knowledge of current events and actions, actual results may ultimately differ from those estimates.

## Note 4 Significant Accounting Policies

### 4.1 New and revised International Financial Reporting Standards (IFRSs)

From January 1, 2018 several new standards were adopted among which the most importants are:

a) ***IFRS 9 Financial Instruments***

From January 1, 2018 IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

b) ***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. From January 1, 2018 IFRS 15 replaced existing revenue recognition guidance, including IAS 18 Revenue and IAS 11 Construction Contracts. The core principle of the new standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue and provides guidance for transactions that were not previously addressed comprehensively.

g) Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
d) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - amendments to IFRS 4
e) Transfers of Investment Property - amendements to IAS 40
v) IFRIC 22 Foreign Currency Transactions and Advance Consideration

### 4.2 Standards and interpretations issued and not yet effective

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

### 4.3 Cash and cash equivalents

Cash and cash equivalents include: cash on hand and cash held in banks on current and deposit accounts.

**Note 4 Significant Accounting Policies (Continued)**

### 4.4 Loans to customers

Loans to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to customers are initially recognized at the fair value (which is equal to the amount disbursed to customer), plus related transaction costs directly related to the issuance of the loan. Loans are subsequently carried at amortized cost using the effective interest method.

Loans to customers are carried net of any allowance for impairment losses. A provision for impairment of loan to customer is established when there is objective evidence that the Company will not be able to collect the amount due according to the original terms of the loan. The carrying amount of loans to customers is reduced through the use of allowance account and the amount of the loss is recognized in the statement of comprehensive income. When a loan is uncollectible, it is written off against the allowance account. Loans are written off after management has exercised all possibilities available to collect amounts due to the Company and after the Company has sold all available collateral.

### 4.5 Property and equipment

Tangible items that are held for use in supply of services, for rental to others, or for administrative purposes and are expected to be used during more than one period are recognized in the balance sheet as property and equipment. Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives of the groups of PP&E are disclosed in the following table.

| Asset group | Estimated useful life |
|---|---|
| Computer and communication equipment | 5-10 years |
| Furniture | 5 years |
| Other fixed assets | 5-10 years |

The useful lives, residual values and depreciation methods are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from those assets. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

**Note 4 Significant Accounting Policies (Continued)**

### 4.5 Property and equipment (Continued)

At each reporting date, the company assesses whether there is any indication that any element of property, plant and equipment may be impaired. If there is an indication of possible impairment, the recoverable amount (the higher of and asset's value in use and its fair value less costs of disposal ) of any affected asset is estimated and compared with its carrying amount. If the carrying amount is greater than its recoverable amount, an impairment loss is recognised immediately in profit or loss. Recovery of imparement loss recognised in previous years occurs, when impairement no longer exists or it is reduced. Recovery of imparement loss is included in same account, where impairement loss is recognized. The previously recognized impairment loss is reversed in a way that, after recovery, the carrying value is not excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years.

### 4.6 Intangibles

Intangible assets that are created are accounted by capitalisating expenses incurred on it, deducting amortization and impairment loss. Amortization is presented in profit or loss based on a straight line method during the useful life of individual asset. Useful life is 10 years.

### 4.7 Income taxes

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

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

**SeniSvna 4 Significant Accounting Policies (Continued)**

### 4.7 Income taxes (Continued)

In May 2016, the Parliament of Georgia enacted the changes in the Tax Code and approved a changed corporate tax model. The model is known as Estonian Tax Model. The changes are applicable from 1 January 2017 for all entities apart from certain financial institutions (commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops), with changes applicable from 1 January 2023. According to this model, the moment of the taxation was moved from the date of earning profit to the date of its distribution and, therefore, the main taxable object is the distributed profit (profit distributed by issuance of dividends to shareholders). The changed model implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings.

### 4.8 Other liabilities

Other liabilities are recognized initially at fair value and subsequently measured at amortized cost.

### 4.9 Share capital

The amount of Company's share capital is defined by the Company's Charter. The changes in the Company's Charter (including changes in share capital, ownership, etc) shall be made only based on the decision of the Company's shareholders. The authorized capital is recognized as share capital in the equity of the Company to the extent that it was

### 4.10 Interest income and expense recognition

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

### 4.11 Fines, other incomes and expenses

Fines imposed on clients, due to delay or non-payment, are generally recorded on a cash basis. Management believes, that the use of the cash basis on income from fines is more reasonable, better reflects the actual operational results and, therefore, gives the right information on such income.

### 4.12 Foreign currency translation

Transactions denominated in foreign currency are recorded at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of comprehensive income using the exchange rate ruling on that date.

**SeniSvna 4 Significant Accounting Policies (Continued)**

### 4.12 Foreign currency translation (Continued)

Monetary assets and liabilities denominated in foreign currency are translated into Georgian Lari at the official exchange rate of the National Bank of Georgia (NBG) at the balance sheet date. As at December 31, 2018 the principal rates of exchange used for translating foreign currency balances were:

| | 31-Dec-18 | 31-Dec-17 |
|---|---|---|
| US Dollar (USD) | 2.6766 | 2.5922 |
| EURO (EUR) | 3.0701 | 3.1044 |

### 4.13 Offsetting

Financial assets (loans and receivables) and financial liabilities (borrowings and accounts payable) are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The offsetting of revenues and expenses does not happen if it is not required and permited by IFRS and not included in the accounting policy of the Company.

## Note 5 Critical Accounting Judgements

In the application of the Company’s accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects both current and future periods.
The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

Useful lives of property and equipment – The estimation of the useful life property and equipment is a matter of management estimate based upon experience with similar assets. In determining the useful life of an item of property, plant and equipment, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Useful lives of intangible assets - assessment of the useful life by the company is based on management estimates in respect of similar assets. In determining the term of usefulness of intangible assets, management takes into consideration estimated use, estimated technical malfunctions, and amortization. Changes in the assessments can lead to adjustment of amortization expenses in the future.

## Note 5 Critical Accounting Judgements (Continued)

Loss related to loans and recievables - is recognized in the profit and loss statement and adjusted if the following increase in recoverable amount can be objectively related to the events afters recognition of the above mentioned imparement loss. When the loan is uncollectible, it is written off against loan loss reserve. The company will write off the remaining part of the loan and related loan loss reserve, when the management determines that the collection of loan is impossible and all actions are taken to collect the loan.

## Note 6 Cash and cash equivalents

| | Note | 31-Dec-18 | 31-Dec-17 |
|---|---|---|---|
| Cash in bank | 6.1 | 91,812 | 1,759 |
| Cash on hand | | 803 | 79,792 |
| Cash in transit | | 37,594 | - |
| **Total cash and cash equivalents** | | **130,219** | **81,561** |

| 6.1 **Breakdown of cash and cash equivalents by currency** | **31-Dec-18** | **31-Dec-17** |
|---|---|---|
| Georgian Lari (GEL) | 130,119 | 81,480 |
| US Dollar (USD) | 100 | 81 |
| **Total cash and cash equivalents** | **130,219** | **81,561** |

The Company's cash is in reliable banks, where there no substantial credit risk arises for the company's cash. Company's cash in banks is with banks rated by Fitch as BB- (long-term rating).

## Note 7 Loans to customers

The Company issues loans mainly to individual entrepreneurs and to individuals for the purpose of financing working capital. All loans are short-term and non-collateralized.

| 7.1 **Groas loan portfolio by principal and accrued interest** | **31-Dec-18** | **31-Dec-17** |
|---|---|---|
| Loan principal | 1,514,197 | 943,510 |
| Interest accrued | 1,559 | 3,032 |
| **Gross loan portfolio** | **1,515,756** | **946,542** |
| Less: Allowance for impairment | (82,081) | (117,310) |
| **Net portfolio** | **1,433,675** | **829,232** |

## Note 7 Loans to customers (Continued)

### 7.2 Loan loss reserve

The Company makes provisons on principal and interest rate receivable. Starting from 2018 the Company makes provisions on issued loans according to the requirements of the National Bank of Georgia (NBG), which states that: if loan is overdue for a period of 30-60 days provision is equal to 30%, for the period of 60-120 days rate must be increased to 50% and if the overdue period is more than 120 days provision is equal to 100%. At the end of 2017 the Company had been using the following rates: 2% provisions are made at the moment of loan issuance; If loan is overdue for a period of less than 30 days reverve is increased to 10%. If loan is overdue between 3060 days, provision is increased to 30%. From 61 to 90 days - 50%, and if loan is overdue by more than 90 days - 100% provision is made. Provisions are made for both principal amount and interest payable.

| **Change in Loan Loss Allowance** | **31-Dec-18** | **31-Dec-17** |
|---|---|---|
| **Balance at January 01** | **(117,310)** | **(79,558)** |
| Add: Loans recognised as doubtful in the current | (274,161) | (188,057) |
| Less: Loans written off as bad debts in the current | - | 150,305 |
| Less: Recovered doubtful loans | 309,390 | - |
| **Balance at December 31** | **(82,081)** | **(117,310)** |

**Provision at December 31, 2018**

| **Overdue days** | Provision rate | Loan amount | Provision amount |
|---|---|---|---|
| 0-30 | 0% | 1,408,233 | - |
| 31-60 | 30% | 17,872 | 5,362 |
| 61-120 | 50% | 19,666 | 9,833 |
| > 120 | 100% | 66,886 | 66,886 |
| **Total** | | **1,512,657** | **82,081** |

**Provision at December 31, 2017**

| **Overdue days** | Provision rate | Loan amount | Provision amount |
|---|---|---|---|
| 0-30 | 2% | 898,237 | 17,965 |
| 31-60 | 10% | 7,946 | 795 |
| 61-90 | 30% | 17,456 | 5,237 |
| 91-120 | 50% | 13,293 | 6,647 |
| > 120 | 100% | 157,415 | 157,415 |
| **Total** | | **1,094,346** | **188,057** |

## Note 8 Property and equipment

| | Property | Vehicles | Computers and furniture | Improvements | **Total** |
|---|---|---|---|---|---|
| **Historical Cost** | | | | | |
| **As at January 1, 2017** | - | 40,100 | 40,944 | 24,321 | **105,365** |
| Purchases | - | - | 5,496 | - | 5,496 |
| Write-off | - | - | - | - | - |
| **As at December 31, 2017** | - | 40,100 | 46,440 | 24,321 | **110,861** |
| Purchases | 170,000 | 26,700 | 5,261 | 8,430 | 210,391 |
| Write-off | - | - | - | - | - |
| **As at December 31, 2018** | 170,000 | 66,800 | 51,701 | 32,751 | **321,252** |
| **Accumulated depreciation** | | | | | |
| **As at January 1, 2017** | - | (5,525) | (6,342) | (6,080) | **(17,947)** |
| Depreciation for the period | - | (5,260) | (7,756) | (4,864) | (17,880) |
| Depreciation write-off | - | - | - | - | - |
| **As at December 31, 2017** | - | (10,785) | (14,098) | (10,944) | **(35,827)** |
| Depreciation for the period | (2,266) | (5,483) | (8,556) | (4,864) | **(21,169)** |
| Depreciation write-off | - | - | - | - | - |
| **As at December 31, 2018** | (2,266) | (16,268) | (22,654) | (15,808) | **(56,995)** |
| **Net Book Value as at Decemebr 31, 2017** | - | 29,315 | 32,342 | 13,377 | **75,034** |
| **Net Book Value as at Decemebr 31, 2018** | 167,734 | 50,532 | 29,047 | 16,943 | **264,256** |

## Note 9 Intangibles

Company's Intangible assets represents financial and loans accounting software, which was bought in 2016.

| **Historical Cost** | Computer software | **Total** |
|---|---|---|
| **As at January 1, 2017** | 126,543 | **126,543** |
| Purchases | - | **-** |
| Write-off | - | **-** |
| **As at Decemeber 31, 2017** | **126,543** | **126,543** |
| Purchases | 3,000 | **3,000** |
| Write-off | | |
| **As at Decemeber 31, 2018** | **129,543** | **129,543** |
| | | |
| **Accumulated amortization** | | |
| **As at January 1, 2017** | (3,814) | (3,814) |
| Amortization for the period | (12,654) | (12,654) |
| Amortization write-off | - | - |
| **As at Decemeber 31, 2017** | **(16,468)** | **(16,468)** |
| Amortization for the period | (12,683) | **(12,683)** |
| Amortization write-off | | |
| **As at Decemeber 31, 2018** | **(29,151)** | **(29,151)** |
| | | |
| **Net Book Value as at** | **110,075** | **110,075** |
| **Net Book Value as at Decemebr 31, 2018** | **100,392** | **100,392** |

## Note 10 Loans and borrowings

| | | **31-Dec-18** | **31-Dec-17** |
|---|---|---|---|
| Loans from natural persons | 10.1 | (668,794) | (238,206) |
| Georgian banks | | (588,000) | (419,600) |
| **Total** | | **(1,256,794)** | **(657,806)** |

### 10.1 Duration of loans and borrowings

| | **31-Dec-18** | **31-Dec-17** |
|---|---|---|
| Short-term loans | (1,251,334) | (654,033) |
| Interest payable | (5,460) | (3,773) |
| **Total** | **(1,256,794)** | **(657,806)** |

## Note 11 Other liabilities

| | 31-Dec-18 | 31-Dec-17 |
|---|---|---|
| Liabilities to suppliers | 40,354 | 69,693 |
| Deffered tax liability | - | 1,352 |
| Other liabilities | 3,592 | 1,562 |
| **Total** | **43,946** | **72,607** |

## Note 12 Share capital

In 2018 the Company's share capital increased by 115,000 GEL and as for December 31, 2018 was equal to 500,550 GEL. As for December 31, 2017 share capital was equal to 385,550 GEL.

## Note 13 Operating and administartive expenses

| | Year 2018 | Year 2017 |
|---|---|---|
| Salary expense | 233,947 | 234,824 |
| Rent expense | 35,714 | 28,744 |
| Consulatation expense | 18,880 | - |
| Bank service fee | 13,838 | 14,988 |
| Advertisement expense | 10,550 | 700 |
| Communication expense | 8,686 | 5,244 |
| Other general expenses | 34,913 | 35,244 |
| **Total** | **356,528** | **319,744** |

## Note 14 Financial risks management

### 14.1 Foreign exchange risk

Foreign currency risk is the risk that fluctuations in currency exchange rates will negatively affect the Company's financial position and its profitability. Foreign currency risk arises from assets and liabilities denominated in foreign currencies.

Part of the Company's financial liabilities are denominatid in foreign currency, in particular - the Company received some loans in USD. Therefore the effect of foreign currency rate changes may be significant for the Company.

Below table presents financial assets and financial liabilities of the Company categorized by currencies (corresponding equivalents in GEL).

**Note 14 Finanacial risks management (Continued)**

**14.1 Foreign exchange risk (Continued)**

| As at December 31, 2018 | GEL | USD 1 USD = 2.6766 GEL | Total |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 130,119 | 100 | **130,219** |
| Loans to customers (Net) | 1,433,675 | - | **1,433,675** |
| Other assets | 51,544 | - | **51,544** |
| **Total financial assets** | **1,615,338** | **100** | **1,615,439** |
| **Financial liabilities** | | | |
| Loans and borrowings | 667,942 | 588,852 | **1,256,794** |
| Other liabilities | 43,946 | - | **43,946** |
| **Total financial liabilities** | **711,888** | **588,852** | **1,300,740** |
| **Net currency position** | **903,450** | **(588,752)** | |

| As at December 31, 2017 | GEL | USD 1 USD = 2.5922 GEL | Total |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 80,780 | 781 | **81,561** |
| Loans to customers (Net) | 829,232 | - | **829,232** |
| Other assets | 44,850 | - | **44,850** |
| **Total financial assets** | **954,862** | **781** | **955,643** |
| **Financial liabilities** | | | |
| Loans and borrowings | 510,051 | 147,755 | **657,806** |
| Other liabilities | 72,607 | - | **72,607** |
| **Total financial liabilities** | **582,658** | **147,755** | **730,413** |
| **Net currency position** | **372,203** | **(146,974)** | |

**Note 14 Financial risks management (Continued)**

### 14.1 Foreign exchange risk (Continued)

The table below presents analysis of the effect on the Company's income statement of a reasonably possible movement of the currency exchange rate against the GEL, with all other variables held constant. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. The base currency is assumed to be the GEL. All amounts are presented in GEL.

| | | 2018 | 2017 |
|---|---|---|---|
| Currency | Change in exchange rate | Impact on profit | Impact on profit |
| USD | -10% | 58,875 | 14,697 |
| | -5% | 29,438 | 7,349 |
| | 5% | (29,438) | (7,349) |
| | 10% | (58,875) | (14,697) |

### 14.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its commitments on time. Liquidity risk exists when the maturities of assets and liabilities do not match. The management controls these types of risks by means of maturity analysis, determining the Company's strategy for the next financial period. In order to manage liquidity risk, the Company performs regular monitoring of future expected cash flows, which is a part of assets/liabilities management process. The following table presents a maturity analysis for non-derivative financial assets and liabilities of the Company with the remaining contractual maturities. The presentation below is based upon the information provided internally to key management personnel of the Company.

| **December 31, 2018** | Up to 1 year | 1 to 3 years | 3 to 5 years | More than 5 years | **Total** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 130,219 | - | - | - | **130,219** |
| Loans to cutomers | 1,433,675 | - | - | - | **1,433,675** |
| Other assets | 51,544 | - | - | - | **51,544** |
| **Total assets** | **1,615,438** | **-** | **-** | **-** | **1,615,438** |
| **Financial liabilities** | | | | | |
| Loans and borrowings | 1,256,794 | - | - | - | **1,256,794** |
| Other liabilities | 40,790 | | | | |
| **Total liabilities** | **1,297,584** | **-** | **-** | **-** | **1,256,794** |
| **Liquidity gap** | **317,854** | **-** | **-** | **-** | **358,644** |
| **Cummulative liquidity gap** | **317,854** | **-** | **-** | **-** | |

**Note** **14** **Financial risks management (Continued)**

**14.2 Liquidity risk (Continued)**

| December 31, 2017 | Up to 1 year | 1 to 3 years | 3 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 81,561 | - | - | - | **81,561** |
| Loans to cutomers | 829,232 | - | - | - | **829,232** |
| Other assets | 44,850 | - | - | - | **44,850** |
| **Total assets** | **955,643** | **-** | **-** | **-** | **955,643** |
| **Financial liabilities** | | | | | |
| Loans and borrowings | 238,206 | - | - | 419,600 | **657,806** |
| **Total liabilities** | **238,206** | **-** | **-** | **419,600** | **657,806** |
| **Liquidity gap** | **717,437** | **-** | **-** | **(419,600)** | **297,837** |
| **Cummulative liquidity gap** | **717,437** | **717,437** | **717,437** | **297,837** | |

**14.3 Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash and cash equivalents, loans and receivables. The Company's maximum exposure to credit risk at the reporting date was:

| | 31-Dec-18 | 31-Dec-17 |
|---|---|---|
| Cash in bank | 91,812 | 1,759 |
| Loans to customers | 1,433,675 | 829,232 |
| **Total** | **1,525,487** | **830,991** |

The Company's cash is placed with highly reliable financial institutions and the management is convinced there is no credit risk related to its cash and cash equivalent balances.

Loans to customers is actually the only item giving rise to the credit risk for the Company. The company has established non-formal credit policy and precedures, that is based on obtaining and investigation of detailed information about customers on Adjarian market, based on which the decision is made whether issue loan or not.

## Note 15 Financial assets and liabilities: accounting classifications and fair values

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 realisable in an immediate sale of the assets or transfer of liabilities.

The estimated fair values of all financial instruments approximate their carrying values. The estimated fair values of all financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date. The Company uses widely recognised valuation models for determining the fair value of common and more simple financial instruments that use only observable market data and require little management judgment and estimation.

For the reporting date the company does not have any financial instrument, with fair value assessment methods, based on using visible non-market data.

### 15.1 Fair value hierarchy

The Company measures fair values using the following fair value hierarchy:

*Level 1* quoted market price (unadjusted) in an active market for an identical instrument.

*Level 2* inputs other than quotes 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.

## Note 16 Related parties

Parties are generally considered to be related if one party has the ability to control the other party or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The details of the related party balances as at the reporting date and of transactions with them are provided in the next tables:

| **Balances with related parties as ar 31-Dec-2018** | Receivables | Loans and borrowings | Interest payable |
|---|---|---|---|
| Shareholders | 51,545 | - | - |
| **Total** | **51,545** | **-** | **-** |

| **Transactions with related parties during the year 2018** | Dividends paid | Interest expense | Salary expense |
|---|---|---|---|
| Shareholders | 78,223 | - | 36,400 |
| Key management personnel | - | - | 13,440 |
| Other related parties | - | 5,700 | - |
| **Total** | **78,223** | **5,700** | **13,440** |

| **Balances with related parties as ar 31-Dec-2017** | Receivables | Loans and borrowings | Interest payable |
|---|---|---|---|
| Shareholders | - | - | - |
| Key management personnel | 6,881 | - | - |
| Other related parties | - | - | - |
| **Total** | **6,881** | **-** | **-** |

| **Transactions with related parties during the year 2017** | Dividends paid | expense | expense |
|---|---|---|---|
| Shareholders | - | - | - |
| Key management personnel | 79,947 | 5,191 | 29,625 |
| Other related parties | - | - | 10,800 |
| **Total** | **79,947** | **5,191** | **40,425** |

## Note 17 Contingencies

### Legal proceedings

During the ordinary course of the business the Company can act as an independent party in litigation process. For the date of reporting there is no information known by management about new or paused lawsuits against the Company or any other disputes that may be transfered to the court, which may significantly affect the financial position of the company.

## Note 18 Going concern considerations

At the end of reporting period, management of the Company considers the Company’s ability to continue as a going concern, in order to ensure that presentation of financial statements based on a going concern assumption is relevant in the circumstances. The management is convinced that the Company’s functionality as going concern is not threatened and they don’t have any plans for company liquidation or significant restriction of its activity.

## Note 19 Events after the reporting period

In accordance with the law regarding microfinance organizations, in the beginning of 2018 microfinance should increase their capital with cash injections upto 1,000,000 GEL until July 1st 2019. In April and May of 2019 the Company made cash injections in its capital up to 861,000 GEL

******