MFO Express Capital + LLC

Financial Statements
For the Year Ended December 31, 2019

and

Independent Auditor's Report

Contents

The last page of the Financial Statements is 21

STATEMENT OF MANAGEMENT's RESPONSIBILITY

Management of MFO Express Capital + LLC 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 efficient 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, 2019 were approved by the Management and signed on its behalf:

Jansugh Zeishvili
Executive Director

MFO Express Capital + LLC

Nino Jortmenadze
Chief Accountant

MFO Express Capital + LLC

Date: June 12, 2020

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INDEPENDENT AUDITORS' REPORT
To the Management of MFO Express Capital + LLC

Qualified opinion

We have audited the financial statements of MFO Express Capital + LLC (the "Company") which comprise the statement of financial position as at December 31, 2019 and the statement of comprehensive income, the statement of changes in equity and the 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, 2019 and its performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion

During the audit process we found out that Company's Loan Loss Reserve model for Expected Credit Loss (ECL) does not correspond to the requirments of IFRS 9 ("Financial Instruments"), in particular: the Company uses National Bank of Georgia's (NBG's) 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: changes credit ratings, restructurings, tax audits, prepayment of loans, liquidity and etc. Moreover, the standard rates used by the 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 Board for Accountants` Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the standalone 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 gave obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information that is not financial statements nor auditor's opinion

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 report.

Our opinion about financial statements does not include abovementioned Other Information and we do not 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.

INDEPENDENT AUDITORS' REPORT (Continued)

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 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 such 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 fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional ommisions, 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 and correctness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of Management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, incuding 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 an 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: June 12, 2020

Tbilisi, Georgia

MFO Express Capital + LLC
Statement of Financial position
For the year ended December 31, 2019
Amounts presented in GEL

	Note	31-Dec-19	31-Dec-18
Assets			
Cash and cash equivalents	**6**	275,874	130,219
Loans to customers	**7**	1,539,758	1,433,675
Property, plant and equipment	**8**	294,715	264,256
Intangible assets	**9**	85,948	100,392
Tax assets	**10**	71,584	44,073
Other assets	**11**	232,045	61,632
Total assets		**2,499,924**	**2,034,247**
Liabilities			
Borrowings	**12**	1,208,639	1,256,794
Finance lease	**8**	35,766	-
Other liabilities		35,146	43,946
Total liabilities		**1,279,551**	**1,300,740**
Equity			
Share capital	**13**	1,203,550	500,550
Retained earnings		16,823	232,957
Total equity		**1,220,373**	**733,507**
Total liabilities and equity		**2,499,924**	**2,034,247**

Jansugh Zeishvili
Executive Director

MFO Express Capital + LLC

Nino Jortmenadze
Chief Accountant

MFO Express Capital + LLC

Date: June 12, 2020

MFO Express Capital + LLC
Statement of Comprehensive income
For the year ended December 31, 2019
Amounts presented in GEL

	Note	2019	2018
Interest income	**7**	428,652	552,058
Interest expense	**12**	(108,309)	(107,537)
Net interest income		**320,343**	**444,521**
Income from fines	**7**	137,357	199,609
Gain/(loss) from currency trade operations		(34,247)	(2,274)
Net fee and commission income		19,355	34
Gain/(loss) from sales of PPE		10,319	-
Other income		2,590	13,822
Operating income		**455,717**	**655,712**
Operating and administrative expenses	**14**	(285,541)	(356,528)
Depreciation and amortization	**8; 9**	(82,029)	(33,852)
Income/(expense) from loan loss reserve	**7**	(61,048)	35,229
Other expenses		(3,263)	(3,282)
Profit before taxes		**23,836**	**297,279**
Income tax expense		(7,661)	(40,248)
Net profit/(loss) for the year		**16,175**	**257,031**
Other comprehensive income		-	-
Total comprehensive income/(expenses) for the year		**16,175**	**257,031**

Jansugh Zeishvili
Executive Director

MFO Express Capital + LLC

Nino Jortmenadze
Chief Accountant

MFO Express Capital + LLC

Date: June 12, 2020

MFO Express Capital + LLC
Statement of Changes in equity
For the year ended December 31, 2019
Amounts presented in GEL

	Share capital	Retained earnings	Total equity
Balance as at 31-Dec-2017	**385,550**	**54,149**	**439,699**
Addition to share capital	115,000	-	115,000
Profit/(loss) for the period	-	257,031	257,031
Dividends	-	(78,223)	(78,223)
Balance as at 31-Dec-2018	**500,550**	**232,957**	**733,507**
Addition to share capital	703,000	-	703,000
Profit/(loss) for the period	-	16,175	16,175
Dividends	-	(232,309)	(232,309)
Balance as at 31-Dec-2019	**1,203,550**	**16,823**	**1,220,373**

Jansugh Zeishvili
Executive Director

MFO Express Capital + LLC

Nino Jortmenadze
Chief Accountant

MFO Express Capital + LLC

Date: June 12, 2020

MFO Express Capital + LLC
Statement of Cash flows
For the year ended December 31, 2019
Amounts presented in GEL

	Note	2019	2018
Cash flows from Operating activities			
Profit/(loss) for the period before taxes		23,836	297,279
Adjustments:			
Depreciation of PPE	**8, 9**	82,029	33,852
Changes in allowance for Expected Credit Loss	**7**	61,048	(35,229)
Interest expense	**8, 12**	108,309	107,537
(Increase)/decrease in loans to customers		(167,131)	(569,214)
Finance lease expense		35,766	-
(Increase)/decrease in other current assets		(197,924)	(25,461)
(Decrease)/increase in other current liabilities		(8,800)	(28,661)
Cash outflow before interest expense and taxes		**(62,867)**	**(219,897)**
Payment of interest expense		(106,112)	(102,077)
Payment of income tax		(7,661)	(46,283)
Cash flows from Operating activities		**(176,640)**	**(368,257)**
Cash flows from Investing activities			
Acquisition of PPE	**8**	(98,044)	(210,393)
Acquisition of intangible assets	**9**	-	(3,000)
Additions to share capital	**13**	703,000	115,000
Cash flows from Investing activities		**604,956**	**(98,393)**
Cash flows from Financing activities			
Borrowings received		2,691,484	2,280,852
Borrowings repaid		(2,741,836)	(1,687,321)
Dividends paid		(232,309)	(78,223)
Cash flows from Financing activities		**(282,661)**	**515,308**
Net increase in Cash and cash equivalents		**145,655**	**48,658**
Cash and cash equivalents at the beginning of the reporting period		**130,219**	**81,561**
Cash and cash equivalents at the end of the reporting period	**6**	**275,874**	**130,219**

Jansugh Zeishvili
Executive Director

MFO Express Capital + LLC

Nino Jortmenadze
Chief Accountant

MFO Express Capital + LLC

Date: June 12, 2020

1 The Company and its principal activities

MFO Express Capital + LLC (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 to issue micro loans for entrepreneur individuals and legal entities. The company issues loans mostly without collateral. According to the legislation applicable to the loans issued by the Company, the upper limit of the loan equals to 100,000 GEL.

Founders of MFO Express Capital + LLC are:

Founder	31-Dec-19	31-Dec-18
Jansugh Zeishvili	100%	100%
	100%	**100%**

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. According to these requirements, microfiance organizations are obliged to have at least 1,000,000 GEL in cash in share capital until September 1, 2019 (at least 500,000 GEL until September 1, 2018) and issue financial statements prepared in accordance with IFRS. . Microfinance organizations in Georgia currently are not allowed to receive loans from clients and to issue loans exceeding GEL 100 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.

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 the 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.

4 Significant accounting policies

4.1 New and revised International Financial Reporting Standards (IFRSs)

A number of new standards came into force on January 1, 2018, the most important changes are:

4 Significant accounting policies

4.1 New and revised International Financial Reporting Standards (IFRSs)

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 structure that determines how much, at what value, and when revenue should be recognized. From January 1, 2018, IFRS 15 has replaced the existing principle of revenue recognition, 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.

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

g) IFRS 16 Finance Lease

According to IFRS 16, the lessee recognizes lease liabilities on those leases that were previously classified as operating leases..

The Company applied IFRS 16 based on modified retrospective method. The Company recognizes the cummulative adjustment on the initial balance without restating comparable data from the previous period. In the transitional period, the Company recognizes lease liabilities under IAS 17 Leases. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the initial recognition.

The weighted average lessee’s incremental borrowing rate applied to the lease liabilities is 6% for USD denominated contracts and 13% for GEL denominated contracts.

4.2 Cash and cash equivalents

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

4.3 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.

4 Significant accounting policies (Continued)

4.3 Loans to customers (Continued)

Loans to customers are carried net of any allowance for impairment losses. A loan loss reserve for loans to customers is made when there is objective evidence that the Company will not be able to collect the amount according to the original terms of the loan agreement. The carrying amount of loans to customers is reduced by the loan loss reserve and this amount is recognized in the statement of comprehensive income. When a loan is uncollectible, it is written off against the loan loss reserve. Loans are written off after management exercises all possibilities available to collect amounts due to the Company and after the Company sells all available collateral.

4.4 Property, plant 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 income statement 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
Office furniture and other fixed assets	5 - 10 years
Vehicles	5 years
Buildings	20 years
Right-of-use asset	2 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 income statement in the year the asset is derecognized.

At each reporting date, the management 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 the statement of comprehensive income. 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 amount of an asset does not excess the amount that would have been determined had no impairment loss been recognised for the asset in prior years.

4 Significant accounting policies (Continued)

4.5 Intangible assets

Intangible assets that are created are accounted by capitalisating expenses incurred on them and then deducting accumulated amortization and impairment loss. Amortization expenses are presented in profit or loss statement based on a straight line method over the useful life of an individual intangible asset. Useful life is 10 years.

4.6 Income tax

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.

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 0% corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings.

4.7 Other liabilities

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

4.8 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 actually contributed by the shareholders to the Company.

4 Significant accounting policies (Continued)

4.9 Interest income and expense recognition

Interest income and expense are recorded in the income statement 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.

4.10 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.

4.11 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.

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) for the last date of the reporting period. On December 31 the principal rates of exchange used for translating foreign currency balances were:

	31-Dec-19	31-Dec-18
USD	2.8677	2.6766
EUR	3.2095	3.0701

4.12 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. Incomes and liabilities are not offset unless required or permitted by IFRS and as specifically disclosed in the accounting policies of the Company.

5 Critical accounting judgments

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.

Below are presented the key assumptions concerning the future and other key sources at the end of the reporting period that have a significant risk of causing an adjustment to the carrying amounts of assets and liabilities within the next reporting period.

Useful live of property, plant 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.

5 Critical accounting judgments (Continued)

Useful live of intangible assets - assessment of the useful life by the management is based on management's estimates in respect of similar assets. In determining the useful live 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.

Loss related to loans and recievables - is recognized in the profit or loss statement and adjusted if the following increase in recoverable amount can be objectively related to the events after 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.

6 Cash and cash equivalents

Cash and cash equivalents	**31-Dec-19**	**31-Dec-18**
Cash in bank	29,714	91,822
Cash on hand	246,160	803
Cash in transit	-	37,594
Total Cash and cash equivalents	**275,874**	**130,219**

Cash and cash equivalents by currencies	**31-Dec-19**	**31-Dec-18**
United States Dollar	158,227	100
Euro	57,185	-
Georgian Lari	52,559	130,119
Russian Ruble	6,350	-
Turkish Lira	1,382	-
Pound sterling	171	-
Total Cash and cash equivalents	**275,874**	**130,219**

The Company's cash is deposited in reliable banks, where no significant credit risk arises for it. Company's cash is deposited in banks rated by Fitch as BB- (long-term rating).

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. Loans are collateralized with guarantee or movable/immovable property.

7.1

Gross loan portfolio by principal and accrued interest	**31-Dec-19**	**31-Dec-18**
Principal	1,631,266	1,514,197
Interest	51,621	1,559
Gross loan portfolio	**1,682,887**	**1,515,756**
Less: Loan loss reserve	*(143,129)*	*(82,081)*
Net portfolio	**1,539,758**	**1,433,675**

7.2 Loan loss reserve

The Company makes provisions on principal and interest. In 2018 and 2019 the Company has made 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%. Provisions are made for both principal amount and interest receivable.

7 Loans to customers (Continued)

7.2 Loan loss reserve (Continued)

Change in Loan Loss Reserve	**2019**	**2018**
Balance at January 1	**82,081**	**117,310**
plius: Doubtful loans in the current period	259,313	274,161
minus: Recovered doubtful loans	*(198,265)*	*(309,390)*
Balance at December 31	**143,129**	**82,081**

At December 31, 2019

Overdue days	**Reserve rate**	**Loan principal**	**Reserve amount**
0-30	0%	1,506,247	-
31-60	30%	3,507	1,052
61-120	50%	-	-
> 120	100%	142,077	142,077
Total		**1,651,831**	**143,129**

At December 31, 2018

Overdue days	**Reserve rate**	**Loan principal**	**Reserve 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**

8 Property, plant and equipment

Historical cost	Buildings	Vehicles	Right-of-use asset*	Office furniture and other	**Total**
31-Dec-17	**-**	**40,100**	**-**	**70,761**	**110,861**
Additions	170,000	26,700	-	13,691	**210,391**
31-Dec-18	**170,000**	**66,800**	**-**	**84,452**	**321,252**
IFRS 16 effect as at January 01, 2019	-	-	66,014	-	**66,014**
Additions	4,744	10,319	-	28,120	**43,183**
Disposals	-	(22,819)	-	-	**(22,819)**
31-Dec-19	**174,744**	**54,300**	**66,014**	**112,572**	**407,630**
Accumulated depreciation					
31-Dec-17	**-**	**(10,785)**	**-**	**(25,042)**	**(35,827)**
Depreciation for the period	(2,266)	(5,483)	-	(13,420)	**(21,169)**
31-Dec-18	**(2,266)**	**(16,268)**	**-**	**(38,462)**	**(56,996)**
Depreciation for the period	(13,364)	(10,391)	(30,538)	(13,292)	**(67,585)**
Depreciation write-off	-	11,666	-	-	**11,666**
31-Dec-19	**(15,630)**	**(14,993)**	**(30,538)**	**(51,754)**	**(112,915)**
Carrying amount					
31-Dec-17	***-***	***29,315***	***-***	***45,719***	***75,034***
31-Dec-18	***167,734***	***50,532***	***-***	***45,990***	***264,256***
31-Dec-19	***159,114***	***39,307***	***35,476***	***60,818***	***294,715***

8 Property, plant and equipment (Continued)

Loans received from banks are collateralized by Property, plant and equipment (See Note 12).

* The Company has operating lease agreements, where it is represented as lessee. Based on these agreements, the Company has some spaces for office and vehicles under the lease with the following monthly payments - 625 USD (24 months), 500 USD (15 months), 625 GEL (14 months) and 125 GEL (two leases for vehicles for 24 months and one lease for vehicles for 17 months).

The carrying amount of right-of-use asset and depreciation expense for the end of the period are 35,476 GEL and 30,538 GEL respectively. The Company's loan rate (6%for loans in USD and 13% for loans in GEL) is used for the calculations of discounted lease payments. Lease liability and interest expense at the end of the reporting period are 35,766 GEL and 3,023 GEL respectively.

9 Intangible assets

Company's intangible asset is a financial accounting and loans software, which was bought in 2016.

Historical cost	Software	**Total**
31-Dec-17	**126,543**	**126,543**
Additions	3,000	**3,000**
31-Dec-18	**129,543**	**129,543**
31-Dec-19	**129,543**	**129,543**
Accumulated amortization		
31-Dec-17	**(16,468)**	**(16,468)**
Amortization for the period	(12,683)	**(12,683)**
31-Dec-18	**(29,151)**	**(29,151)**
Amortization for the period	(14,444)	**(14,444)**
31-Dec-19	**(43,595)**	**(43,595)**
Carrying amount		
31-Dec-17	***110,075***	***110,075***
31-Dec-18	***100,392***	***100,392***
31-Dec-19	***85,948***	***85,948***

10 Tax assets

At December 31, 2019 the amount of tax assets is 71,584 GEL. At December 31, 2018 the amount of tax assets was 44,073 GEL.

11 Other assets

Other assets	**31-Dec-19**	**31-Dec-18**
Advances	218,404	59,525
Debitors	11,254	-
Inventories	2,387	2,107
Total other assets	**232,045**	**61,632**

12 Borrowings

Borrowings	**31-Dec-19**	**31-Dec-18**
Borrowings from natural persons in GEL	772,153	79,942
Borrowings from banks in GEL	387,735	588,000
Borrowings from natural persons in USD	48,751	588,852
Total borrowings	**1,208,639**	**1,256,794**

12 Borrowings (Continued)

Duration of borrowings	**31-Dec-19**	**31-Dec-18**
Short-term borrowings	1,208,639	1,251,334
Interest payable	-	5,460
Total borrowings	**1,208,639**	**1,256,794**

Interest expense	**2019**	**2018**
Interest expense in GEL	74,373	75,403
Interest expense in USD	30,913	32,134
Total interest expense	**105,286**	**107,537**

2 loans are taken from the banks. The loan was received from the Bank of Georgia on March 29, 2019, the loan principal amount is 137,735 GEL, the annual interest rate is 12.9%. This loan is collateralized by real estate. From Halyk Bank Georgia the Company received 250,000 GEL with 12% annual interest rate on October 02, 2019. This loan is also collateralized by real estate.

9 loans in GEL and 5 loans in USD are received from natural persons. On July 2, 2015 the Company received 10,000 GEL with 12% annual interest rate from Ia Devadze. From Lia Aphaqidze the Company received 2 loans. The first on October 28, 2014 in amount of 4,378 GEL with 11% annual interest rate from August of 2019 and the second loan on July 30, 2019 in amount of 11,000 USD with 6% annual interest rate. Two loans were received Mariam Aphaqidze. The first on November 1, 2016 in amount of 1,000 GEL with 18% annual interest rate. The second on October 1, 2019 in amount of 1,000 USD with 6% annual interest rate. One loan is received from Nato Sakhranidze on January 24, 2017 in amount of 10,000 GEL with 18% annual interest rate. From Khatuna Arjevanidze on January 17, 2018 the Company received 36,236 GEL with 11% annual interest rate from July of 2019. From Lela Beridze in 2019 the Company received 4,500 GEL with 11% annual interest rate. From Leila Buzarashvili on September 20, 2019 the Company received 10,000 USD with 8% annual interest rate. From Ia Zeishvili on November 18, 2019 the Company received 132,300 GEL with 12% annual interest rate. From Elene Khukhashvili the Company received 2 loans. The first on October 27, 2018 in amount of 200,000 USD, which was repaid in 2019 and new loan was received on July 1, 2019 in amount of 573,740 GEL with 9% annual interest rate. In 2019 the Company repaid loan provided by Revaz Tsareqashvili, which was received on June 19, 2017 in amount of 24,000 GEL. Loan received from Tamaz Jijavadze on December 29, 2015 in amount of 20,000 USD was also repaid in 2019.

13 Share capital

In 2019 the share capital of the Company increased by 703,000 GEL and at December 31, 2019 is equal to 1,203,550 GEL. At December 31, 2018 the share capital was 500,550 GEL.

14 Operating and administrative expenses

Operating and administrative expenses	**2019**	**2018**
Salary expense	180,320	233,947
Consultation expense	44,763	18,880
Expenses for services	15,887	10,831
Bank service expense	10,337	13,838
Advertising expense	9,694	10,550
Communication expens	2,840	8,686
Rent expense	-	35,714
Other general expenses	21,700	24,082
Total operating and administrative expenses	**285,541**	**356,528**

15 Financial risks management

15.1 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.

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

Financial assets and financial liabilities of the Company categorized by currencies (corresponding equivalents in GEL) are presented in the table below.

As at December 31, 2019	GEL	Other	USD	Total
Financial assets				
Cash and cash equivalents	52,559	65,088	158,227	**275,874**
Loans to customers (Net)	1,539,758	-	-	**1,539,758**
Other assets	229,658	-	-	**229,658**
Total financial assets	**1,821,975**	**65,088**	**158,227**	**2,045,290**
Financial liabilities				
Loans and borrowings	1,159,888	-	48,751	**1,208,639**
Financial lease	10,006	-	25,760	**35,766**
Other liabilities	1,433,675	-	-	**1,433,675**
Total financial liabilities	**2,603,569**	**-**	**74,511**	**2,678,080**
Net currency position	**(781,594)**	**65,088**	**83,716**	

As at December 31, 2018	GEL	USD	Total
Financial assets			
Cash and cash equivalents	130,119	100	**130,219**
Loans to customers (Net)	1,433,675	-	**1,433,675**
Other assets	59,525	-	**59,525**
Total financial assets	**1,623,319**	**100**	**1,623,419**
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	**911,431**	**(588,752)**	

15.2 Liquidity risk

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.

		2019	2018
Currency	**Change in exchange rate**	**Impact on profit**	**Impact on profit**
USD	-10%	(14,880)	58,875
	-5%	(7,440)	29,438
	5%	7,440	(29,438)
	10%	14,880	(58,875)

15 Financial risks management (Continued)

15.2 Liquidity risk (Continued)

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, 2019	Up to 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Financial assets					
Cash and cash equivalents	275,874	-	-	-	**275,874**
Loans to cutomers	1,539,758	-	-	-	**1,539,758**
Other assets	229,658	-	-	-	**229,658**
Total assets	**2,045,290**	**-**	**-**	**-**	**2,045,290**
Financial liabilities					
Loans and borrowings	1,208,639	-	-	-	**1,208,639**
Financial lease	35,766	-	-	-	**35,766**
Other liabilities	35,146	-	-	-	**35,146**
Total liabilities	**1,279,551**	**-**	**-**	**-**	**1,279,551**
Liquidity gap	**765,739**	**-**	**-**	**-**	**765,739**
Cummulative liquidity gap	**765,739**	**-**	**-**	**-**	

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	59,525	-	-	-	**59,525**
Total assets	**1,623,419**	**-**	**-**	**-**	**1,623,419**
Financial liabilities					
Loans and borrowings	1,256,794	-	-	-	**1,256,794**
Other liabilities	43,946	-	-	-	**43,946**
Total liabilities	**1,300,740**	**-**	**-**	**-**	**1,300,740**
Liquidity gap	**322,679**	**-**	**-**	**-**	**322,679**
Cummulative liquidity gap	**322,679**	**-**	**-**	**-**	

15.3 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-19	31-Dec-18
Cash in bank	29,714	91,822
Loans to customers	1,539,758	1,433,675
Total	**1,569,472**	**1,525,497**

15 Financial risks management (Continued)

15.3 Credit risk (Continued)

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.

16 Financial assets and liabilities: fair values and accounting classifications

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 (that is given in the previous sentence) 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.

16.1 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.

17 Capital management

Following table represents the analysis of compliance of the Company's statutory capital with the minimum capital requirements set by the National Bank of Georgia, as of December 31, 2019 and December 31, 2018:

	31-Dec-19	**31-Dec-18**
Owners capital	500,550	385,550
Capital increase	703,000	115,000
Total Equity	**1,203,550**	**500,550**

Minimum requirement of statutory capital based on the requirements of the National Bank of Georgia as of December 31, 2019 was GEL 1,000,000 ,for the date of December 31, 2018 - GEL 500,000.

18 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-2019	**Receivables**	**Loans and borrowings**	**Interest payable**
Shareholders	208,934	-	-
Total	**208,934**	**-**	**-**

Transactions with related parties during the year 2019	**Dividends paid**	**Interest expense**	**Salary expense**
Shareholders	232,309	-	31,200
Key management personnel	-	-	11,520
Total	**232,309**	**-**	**42,720**

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**	**49,840**

19 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.

20 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.

21 Events after the reporting period

At the beginning of 2020 the world faced the risk of sprade of the new Coronavirus ("COVID-19"). On March 11, 2020 World Health Organization (WHO) ordered global pandemic. In respect to the situation in the world and Georgia in particular, the government of Georgia applied several measures, including state of emergency and curfew from March 11, 2020 till May 23, 2020. According to the estimations of the management, the risk associated with COVID-19 will not affect the Company's ability to continue as a going concern.

There was no events after the reporting date which could cause any need for additional corrections to these financial statements.

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