MFO LENDO LLC

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the year ended 31 December 2017

CONTENTS:

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and Management of MFO LENDO LLC

Opinion

We have audited the financial statements of MFO LENDO LLC (hereinafter - the Organisation), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organisation as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Organisation incurred a net loss of GEL11,630,514 during the year ended 31 December 2017 and, as of that date, the Organisation had a negative equity of GEL23,763,844. As stated in Note 2, these circumstances or conditions indicate that a material uncertainty exists that may cast significant doubt on the Organisation's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

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

In preparing the financial statements, management is responsible for assessing the Organisation'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 Organisation or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organisation'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 Organisation to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Organisation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

Ivane Zhuzhunashvili

For and on behalf of BDO LLC

Tbilisi, Georgia

5 December 2018

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(In Georgian Lari)

	Note	31 December 2017	31 December 2016 (Restated)*
Assets			
Cash and cash equivalents	6	1,000,556	2,116,492
Loans granted	7	50,433,335	28,534,979
Property and equipment	8	489,827	755,192
Intangible assets		40,208	54,530
Other assets	9	1,077,596	1,082,124
Tax asset		433,198	-
Deferred tax asset	10	310,007	157,491
Total assets		**53,784,727**	**32,700,808**
Liabilities			
Borrowings	11	73,189,853	43,413,782
Tax liability		-	896,335
Other liabilities	12	4,358,718	787,064
Total liabilities		**77,548,571**	**45,097,181**
Equity			
Charter capital		263,043	-
Accumulated loss		(24,026,887)	(12,396,373)
Total equity		**(23,763,844)**	**(12,396,373)**
Total liabilities and equity		**53,784,727**	**32,700,808**

*Detailed information is disclosed in Note 5.

Signed on behalf of management on 5 December 2018 by:

Chief Executive Officer ______________ G. Ramazashvili

Chief Accountant ______________ E. Marghania

The notes on pages 9-31 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(In Georgian Lari)

	Note	2017	2016 (Restated)*
Interest income	13	35,150,080	10,153,033
Interest expense	13	(7,351,049)	(1,540,373)
Net interest income before impairment		**27,799,031**	**8,612,660**
Loan impairment	7	(24,150,121)	(13,250,555)
Net interest income/(expense)		**3,648,910**	**(4,637,895)**
Loss on disposal of impaired loans	14	(1,163,548)	-
Other income	15	3,142,097	752,177
General administrative and commercial expenses	16	(10,297,815)	(5,120,387)
Foreign exchange loss, net		(6,835,530)	(2,743,644)
Loss before income tax		**(11,505,886)**	**(11,749,749)**
Income tax expense	10	(124,628)	(646,624)
Total comprehensive loss for the year		**(11,630,514)**	**(12,396,373)**

*Detailed information is disclosed in Note 5.

The notes on pages 9-31 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(In Georgian Lari)

	Charter capital	Accumulated loss	Total
At 31 December 2015	-	-	-
Total comprehensive loss for the year	-	(12,396,373)	**(12,396,373)**
At 31 December 2016 (Restated)*	**-**	**(12,396,373)**	**(12,396,373)**
Increase of charter capital	263,043	-	**263,043**
Total comprehensive loss for the year	-	(11,630,514)	**(11,630,514)**
At 31 December 2017	**263,043**	**(24,026,887)**	**(23,763,844)**

*Detailed information is disclosed in Note 5.

The notes on pages 9-31 form an integral part of these financial statements.

For the year ended 31 December 2017

(In Georgian Lari)

	Note	2017	2016 (Restated)*
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss before income tax		**(11,505,886)**	**(11,749,749)**
Adjustments for:			
Loan impairment	7	24,150,121	13,250,555
Net change in interest accruals	13	(27,799,031)	(8,612,660)
Depreciation and amortisation	16	628,200	213,156
Net loss from written of property and equipment		34,735	4,996
Net gain on foreign exchange operations		6,835,530	2,743,644
Cash flows from operating activities before changes in operating assets and liabilities		**(7,656,331)**	**(4,150,058)**
Increase in operating assets:			
Loans granted		(44,238,295)	(40,147,221)
Other assets		(522,499)	(891,895)
Tax asset		(525,418)	-
Increase in operating liabilities:			
Other liabilities		3,580,835	816,742
Cash outflow from operating activities before taxation		**(49,361,708)**	**(44,372,432)**
Interest received		33,137,098	8,523,216
Interest paid		(6,884,807)	(432,565)
Income tax paid		(1,081,259)	-
Net cash outflow from operating activities		**(24,190,676)**	**(36,281,781)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	8	(351,495)	(951,371)
Purchase of intangible assets		(31,753)	(76,503)
Net cash outflow from investing activities		**(383,248)**	**(1,027,874)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in borrowings		22,857,955	39,772,039
Proceeds from increase of the charter capital		263,043	-
Net cash inflow from financing activities		**23,120,998**	**39,772,039**
Net increase/(decrease) in cash and cash equivalents		**(1,452,926)**	**2,462,384**
Cash and cash equivalents at the beginning of the year		**2,116,492**	-
Effect of exchange rate fluctuations on the cash and cash equivalents held in foreign currencies		336,990	(345,892)
Cash and cash equivalents at the end of the year		**1,000,556**	**2,116,492**

*Detailed information is disclosed in Note 5.

The notes on pages 9-31 form an integral part of these financial statements.

1. GENERAL INFORMATION

A) ORGANISATION

MFO LENDO LLC is a Limited Liability Company (the "Organisation") which was established on 8 December 2015 and started operations from the beginning of 2016. The Organisation was registered at tax department office in Tbilisi, Georgia with the registration number 404504844.

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

As the Organisations's principal business activity MFO LENDO LLC offers offline credits to its customers through its vast network of branches, with maturity from 30 to 720 days, an innovative product in Georgian market. The main advantages of the Organisation are the fast pace, simplicity and flexibility.

The owner of the Organisation is a legal entity Dindin Holdings LTD (100%). The Organisation had no ultimate controlling party as at 31 December 2017 and 2016.

The supreme governing body of the Organisation is the General Meeting of Partners. Daily management of the Organisation is carried out by the Director appointed by the partners. The Organisation also has a Supervisory Board which consists by four members.

The Organisation's legal address is 10 Otar Chkheidze street, Tbilisi, Georgia.

B) CHANGES IN GEORGIAN LEGISLATION

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

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

The total amount of authorised capital must be filled up by monetary way only.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

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

The Organisation maintains its records and prepares financial statements in Georgian Lari (GEL).

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

Amounts in the financial statements are presented without rounding, unless otherwise stated.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying The Organisation's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 4.

BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention.

2. BASIS OF PREPARATION (CONTINUED)

GOING CONCERN

The Organisation incurred a net loss of GEL11,630,514 during the year ended 31 December 2017 and, as of that date, the Organisation had a negative equity of GEL23,763,844. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Organisation's ability to continue as a going concern. The financial statements have been prepared on a going concern basis as the holding company has agreed to provide continuing financial support in case of necessity and not to recall amounts in a manner that would threaten the liquidity and future operations of the Organisation.

CHANGES IN ACCOUNTING POLICIES

a) New standards, interpretations and amendments effective from 1 January 2017

None of the amendments to Standards that are effective from that date had a significant effect on the Organisation's financial statements.

b) New standards, interpretations and amendments not yet effective

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the Organisation's future financial statements:

- IFRS 15 - Revenue from Contracts with Customers
- IFRS 9 - Financial Instruments
- IFRS 16 - Leases

IFRS 15 Revenue from Contracts with Customers. In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise 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 and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 15, the transition can involve one or more than one date of initial application for different requirements.

2. BASIS OF PREPARATION (CONTINUED)

IFRS 9 Financial Instruments. IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.
- **Hedge accounting**. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principal of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

2. BASIS OF PREPARATION (CONTINUED)

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

The accounting requirements for lessors have largely been carried forward unchanged from IAS 17. This means that a lessor continues to classify leases as operating or finance. The major changes are for lessees, with IFRS 16 setting out a single model for lessees which eliminates the distinction between operating and finance leases, and results in the statement of financial position reflecting a 'right of use' asset and a corresponding liability for most lease contracts. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate implicit in the lease. However, entities have an option not to bring onto the statement of financial position short term leases (i.e. those with a term of 12 months or less) and leases of low value items.

As a result, a key question changes from whether a lease is an operating or a finance lease under current guidance, to whether an arrangement gives rise to something that meets the definition of a lease. The scope of IFRS 16 is wide, and some arrangements involving the use of assets that might be viewed as service contracts (which are executory and not recorded in the statement of financial position) may in fact result in a lease within the scope of IFRS 16. Significant changes to systems and processes may be required in order to comply with the new requirements.

In the income statement, the application of IFRS 16 will result in a depreciation charge (within operating expenses) and an interest expense. Assuming depreciation is charged on a straight-line basis, the total expense will be higher in the first part of a lease in comparison with later periods, because the lease liability and related interest expense will be higher.

IFRS 16 has an effective date of 1 January 2019, with early application permitted only if IFRS 15 has also been adopted.

The effects of IFRS 15 Revenues from Contracts with Customers, IFRS 9 Financial Instruments and IFRS 16 Leases are still being assessed, as these new standards may have a significant effect on the Organisation's future financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

FINANCIAL INSTRUMENTS

(a) Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets. The Organisation determines the classification of its financial assets upon initial recognition.

Fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss. They are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss.

The Organisation does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when The Organisation has positive intention and ability to hold them upon maturity. The Organisation does not have any assets as being classified held to maturity.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise principally The Organisation's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities as well as corporate bonds. They are carried at fair value with changes in fair value generally recognised in other comprehensive income and accumulated in the available-for-sale reserve; Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognised in other comprehensive income, is recognised in profit or loss.

Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available-for-sale reserve. On sale, the cumulative gain or loss recognised in other comprehensive income is reclassified from the available-for-sale reserve to profit or loss. The Organisation does not have any assets classified as available-for-sale.

Derecognition of financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial liabilities

Financial liabilities are classified as trade and other payables or borrowings. Financial liabilities are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

De-recognition of financial liabilities

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

(c) Offsetting

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

(d) IFRS 13 fair value measurement hierarchy

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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

The Organisation has no financial assets or liabilities measured at fair value; accordingly they are not presented under the IFRS 13 fair value measurement hierarchy.

(e) Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factor that the Organisation considers whether a financial asset is impaired is its overdue status.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

individually. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of sufficient historical loss experience and the success of recovery of overdue amounts. Historical experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Considering the fact that 2016 was the first year of operations, the Organisation used Group's experience.

Impairment losses are always recognised through an allowance account to reduce the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred).

CASH AND CASH EQUIVALENTS

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

PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property and equipment is stated at historical cost, less accumulated depreciation. Costs of minor repair and maintenance are expensed when incurred. Cost of replacing major parts of components of property and equipment items are capitalised and the replaced parts are retired.

At each reporting date the management assess whether there is any indication of impairment of property and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit and loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

All the Organisation's intangible assets have definite useful lives and primarily include capitalised computer software and other licences. Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised on profit or loss for the year.

Property, equipment and intangible assets are depreciated/amortised over two years using the straight-line method to allocate their cost over their estimated useful lives.

TAXATION

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

EQUITY & DIVIDENDS

Equity includes charter capital and retained earnings. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note.

FINANCE INCOME AND EXPENSE RECOGNITION

For all financial instruments measured at amortised cost, loan origination fees and interest income or expense is recorded using effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts over an expected life of a financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or the financial liability. While calculating effective interest rate, the Organisation takes into account all contractual terms of the financial instrument, but not future credit losses. The carrying amount of the financial asset or the financial liability is adjusted if the Organisation revises its estimates as to such payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and is recognised as interest income or expense in the income statement.

Interest income includes interest and fees (received and due) taken into account in the calculation of the effective interest rate on: loans and bank placements.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income is calculated on the present value of an amount due (i.e.: the value less value adjustment) and continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest expense includes expenses on loans received from other parties and costs related to the issue of own securities.

Other fees and commissions for activities not related to the internal rate of return on loans, advances and other receivables are not settled at effective interest rate but spread over time at the straight line method or recognised on a one-off basis at the moment of their receipt depending on the nature of such fees and commissions.

SALARIES AND OTHER EMPLOYEE BENEFITS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECOGNITION OF EXPENSES

Expenses are recognised in the statement of comprehensive income if there arises any decrease of future economic profit related to the decrease of an asset or increase of a liability that can be reliably assessed.

Expenses are recognised in the statement of comprehensive income immediately, if the expenses do not result in future economic profit any more, or if future economic profit do not meet or stop to meet the requirements of recognition as an asset in the balance sheet.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

- A contract (through its explicit or implicit terms);
- Legislation; or
- Other operation of law.

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

- By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

The term 'contingent liability' is used for liabilities that do not meet the recognition criteria. Accounting policy distinguishes between:

- provisions - which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and
- contingent liabilities - which are not recognised as liabilities because they are either:
  - possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits; or
  - present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

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

Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCY TRANSLATION

Items included in the financial statements are measured using the currency of the primary economic environment in which the Organisation operates ('the functional currency'). Financial statements are presented in Georgian Lari (GEL), which is the Organisation's functional and presentation currency.

Monetary assets and liabilities are translated into the Organisation's functional currency at the official exchange rate of the National Bank of Georgia.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Organisation's functional currency at year-end official exchange rates are recognised in the statement of comprehensive income. Translation at year-end rates does not apply to non-monetary items, including equity investments.

Table below presents the closing exchange rates by the National Bank of Georgia as at 31 December 2017 and 2016:

	USD / GEL	EUR / GEL
Exchange rate as at 31 December 2017	2.5922	3.1044
Exchange rate as at 31 December 2016	2.6468	2.7940

EVENTS AFTER THE REPORTING PERIOD

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

ALLOWANCE FOR IMPAIRMENT OF LOANS AND RECEIVABLES

The Organisation regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Organisation makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets in the Organisation. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

INCOME TAXES

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Organisation recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Organisation's belief that its tax return positions are supportable, the Organisation believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. As a result the Organisation minimizes the risks related to this fact. The Organisation believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events.

5. PRIOR YEAR ADJUSTMENTS AND RECLASSIFICATIONS

PRIOR YEAR ADJUSTMENTS

Where necessary, the corresponding figures have been restated to conform to the presentation of the current year amounts. The effect of restatements is as follows:

	As stated 31 December 2016	Restatement	As restated 31 December 2016
Statement of financial position			
Loans granted	35,841,898	(7,306,919)	**28,534,979**
Accumulated loss	(5,089,454)	(7,306,919)	**(12,396,373)**
Statement of comprehensive income			
Loan impairment	(5,943,636)	(7,306,919)	**(13,250,555)**

The Company amended the methodology of loan provision calculation policy. Management states that this way financial statements provide reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

PRIOR YEAR RECLASSIFICATIONS

Where necessary, the corresponding figures have been reclassified to conform to the presentation of the current year amounts. The effect of reclassifications is as follows:

	As classified 31 December 2016	Reclassification	As reclassified 31 December 2016
Statement of financial position			
Tax liability	804,115	92,220	**896,335**
Other liabilities	879,284	(92,220)	**787,064**

According to the amendment to the tax legislation of Georgia, taxes are paid on the unified treasury code. As a result, the Company's tax assets and liabilities are presented on a net basis in the financial statements prepared as at 31 December 2017 and 2016.

6. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash on hand	216,323	259,850
Cash on current accounts in banks in Georgian Lari	441,730	1,571,367
Cash on current accounts in banks in other currencies	35,297	6,725
Cash in transit*	307,206	278,550
Total cash and cash equivalents	**1,000,556**	**2,116,492**

*Cash in transit consists of cash received from the customers by the payment terminals which is transferred later to the company by provider.

Cash and cash equivalents distribution by currency is disclosed in Note 18.

7. LOANS GRANTED

Loans granted as at 31 December 2017 can be presented as follows:

	Loans to customers	Other loans	Total loans granted
Originated loans	71,480,051	760,577	**72,240,628**
Accrued interest	4,100,542	25,086	**4,125,628**
Gross loans granted	**75,580,593**	**785,663**	**76,366,256**
Less: allowance for impairment losses	(25,932,921)	-	**(25,932,921)**
Net loans granted	**49,647,672**	**785,663**	**50,433,335**

Loans granted as at 31 December 2016 can be presented as follows:

	Loans to customers	Other loans	Total loans granted
Originated loans	36,610,664	3,062,224	**39,672,888**
Accrued interest	2,105,924	6,722	**2,112,646**
Gross loans granted	**38,716,588**	**3,068,946**	**41,785,534**
Less: allowance for impairment losses	(13,250,555)	-	**(13,250,555)**
Net loans granted	**25,466,033**	**3,068,946**	**28,534,979**

Movements in the loan impairment allowance for loans to customers are as follows:

	2017	2016
Balance at the beginning of the year	**(13,250,555)**	**-**
Net charge for the year	(24,150,121)	(13,250,555)
Provisions related to purchased portfolio	(1,115,048)	-
Write-offs during the year	12,582,803	-
Balance at the end of the year	**(25,932,921)**	**(13,250,555)**

The following table provides information on the credit quality of the loan portfolio as at 31 December 2017:

Credit quality of loans to customers	Gross loans to customers	Impairment allowance	Balance at the end of the year
Not overdue	55,241,384	(8,629,579)	46,611,805
Less than 90 days overdue*	6,207,901	(3,781,820)	2,426,081
More than 90 days overdue	14,131,308	(13,521,522)	609,786
Total as at 31 December 2017	**75,580,593**	**(25,932,921)**	**49,647,672**

The following table provides information on the credit quality of the loan portfolio as at 31 December 2016:

Credit quality of loans to customers	Gross loans to customers	Impairment allowance	Balance at the end of the year
Not overdue	25,903,904	(4,196,568)	**21,707,336**
Overdue less than 90 days*	9,053,312	(5,708,146)	**3,345,166**
Overdue more than 90 days	3,759,372	(3,345,841)	**413,531**
Total as at 31 December 2016	**38,716,588**	**(13,250,555)**	**25,466,033**

*Group also includes 90 days overdue loans.

8. PROPERTY AND EQUIPMENT

Historical cost	Computers and other technical equipment	Furniture and fixtures	Leasehold improvements	Vehicles	Total
At 1 January 2016	-	-	-	-	-
Additions	450,255	253,772	220,281	27,063	**951,371**
Disposals	(3,900)	-	(1,279)	-	**(5,179)**
At 31 December 2016	**446,355**	**253,772**	**219,002**	**27,063**	**946,192**
Additions	12,362	164,279	140,119	-	**316,760**
Disposals	-	-	-	-	-
At 31 December 2017	**458,717**	**418,051**	**359,121**	**27,063**	**1,262,952**

Accumulated depreciation					
At 1 January 2016	-	-	-	-	-
Depreciation charge	(88,104)	(54,285)	(45,822)	(2,972)	**(191,183)**
Accumulated depreciation of disposals	183	-	-	-	**183**
At 31 December 2016	**(87,921)**	**(54,285)**	**(45,822)**	**(2,972)**	**(191,000)**
Depreciation charge	(114,380)	(269,612)	(186,341)	(11,792)	**(582,125)**
Accumulated depreciation of disposals	-	-	-	-	-
At 31 December 2017	**(202,277)**	**(323,791)**	**(232,293)**	**(14,764)**	**(773,125)**

Net book value					
At 31 December 2016	**358,434**	**199,487**	**173,180**	**24,091**	**755,192**
At 31 December 2017	**256,440**	**94,260**	**126,828**	**12,299**	**489,827**

9. OTHER ASSETS

Other assets as at 31 December 2017 and 2016 can be presented as follows:

	31 December 2017	31 December 2016
Financial other assets		
Transit account*	-	1,009,772
Receivables arising from selling loan portfolio	986,304	-
	986,304	**1,009,772**
Non-financial other assets		
Prepayments	91,292	72,352
Total other assets	**1,077,596**	**1,082,124**

*Additional information is provided below in Note 11.

10. DEFERRED TAX ASSET

Temporary differences at a rate of 15% due to:	Credited (charged) to the Income Statement	31 December 2016	Credited (charged) to the Income Statement	31 December 2017
Loans granted	1,987,583	**1,987,583**	1,902,355	**3,889,938**
Property and equipment	(40,828)	**(40,828)**	63,326	**22,498**
Borrowings	127,057	**127,057**	69,936	**196,993**
Other liabilities	71,262	**71,262**	19,254	**90,516**
Deferred tax asset/(liability)	**2,145,074**	**2,145,074**	**2,054,871**	**4,199,945**
Unrecognised Temporary differences				
Loans granted	(1,987,583)	**(1,987,583)**	(1,902,355)	**(3,889,938)**
Net deferred tax asset	**157,491**	**157,491**	**152,516**	**310,007**

Income tax (expense) / benefit comprises the following:

	2017	2016
Current income tax	(277,144)	(804,115)
Effect of temporary differences	152,516	157,491
Income tax expense	**(124,628)**	**(646,624)**

Reconciliation of the Income tax (expense) / benefit based on statutory rate with actual is as follows:

	2017	2016
Loss before income tax	**(11,505,886)**	**(11,749,749)**
Applicable tax rate	15%	15%
Theoretical Income tax benefit	**1,725,883**	**1,762,462**
Effect of unrecognised tax asset	(1,902,355)	(1,987,583)
Effect of permanent differences	51,844	(421,503)
Income tax expense	**(124,628)**	**(646,624)**

11. BORROWINGS

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

	Currency	Interest rate	Maturity	Originated borrowings	Accrued interest
Lutea Holdings Limited	EUR	12.5%	6/30/2019	21,531,522	886,446
JSC KB Investments	EUR	12.0%	12/31/2018	1,800,350	18,350
Peer-to-peer lending platform*	EUR			45,409,007	379,245
Peer-to-peer lending platform*	GEL			3,135,688	29,245
Total borrowings				**71,876,567**	**1,313,286**

Borrowings as at 31 December 2016 can be presented as follows:

	Currency	Interes t rate	Maturity	Originated borrowings	Accrued interest
Parent company	EUR	12.2%	12/31/2017	19,351,129	712,762
Peer-to-peer lending platform*	EUR	-	-	23,215,609	134,282
Total borrowings				**42,566,738**	**847,044**

*To finance its business the Organisation has an agreement with peer-to-peer lending platform. Mentioned platform connects investors with borrowers of non-bank lenders. It is an easy and transparent alternative to the traditional banking system.

At peer-to-peer platform both retail and institutional investors can invest in fractions of loans originated across Europe. Loan originators (the Organisation), on the other hand, by connecting to the platform get an instant access to investors that are looking to purchase loans.

At any point throughout the year company has certain amounts of receivables from and payables to Peer-to-peer lending platform. The receivables arise when investors purchase loans. On the other hand, payables arise when already purchased loans become due and company is obliged to return money to the platform. Net of those receivables and payables are presented under the name of Transit Account In the notes to the financial statements. As at 31 December 2016 and 2017 the Organisation's transit account on peer-to-peer platform showed positive balance of GEL1,009,772 (see note 9) and Negative balance of GEL3,412,711 (Note 12), respectively.

12. OTHER LIABILITIES

	31 December 2017	31 December 2016
Transit account*	3,412,711	-
Payables for received services**	812,727	651,850
Vacation payable	117,857	91,809
Other	15,423	43,405
Total other liabilities	**4,358,718**	**787,064**

*Additional information is provided above in Note 11.

**Payables for received services is generally comprised by marketing, software support and peer-to-peer lending platform service payables with different vendors.

13. NET INTEREST INCOME

Interest income is arising from:	2017	2016
Loans to customers	35,013,291	10,139,750
Loans to legal entities	121,382	6,722
Placements with banks	15,407	6,561
Total interest income	**35,150,080**	**10,153,033**
Interest expense is arising from:		
Borrowings from related parties	(2,319,141)	(1,055,969)
Other borrowings	(5,031,908)	(484,404)
Total interest expense	**(7,351,049)**	**(1,540,373)**
Net interest income before impairment charges	**27,799,031**	**8,612,660**

14. LOSS ON DISPOSAL OF IMPAIRED LOANS

	2017
Selling price	1,029,281
Total selling price	**1,029,281**
Gross amount of the loans disposed	(14,775,632)
Total provision attributable to the loans sold	12,582,803
Net value of disposed loans	**(2,192,829)**
Loss on disposal of impaired loans	**(1,163,548)**

In 2017 Company sold its impaired portfolios twice with the intention to get rid of the loans out of which no future economic benefits are expected to be received. The average selling price was defined as 6.5% of portfolio's gross total value. There was no portfolio sold in 2016.

15. OTHER INCOME

	2017	2016
Penalties and late fees	2,950,784	718,202
Other	191,313	33,975
Total other income	**3,142,097**	**752,177**

16. GENERAL ADMINISTRATIVE AND COMMERCIAL EXPENSES

	31 December 2017	31 December 2016
Personnel costs	(2,478,761)	(1,280,516)
Marketing costs	(1,318,612)	(1,559,310)
Rent and utilities	(1,303,140)	(651,292)
Other financing fees	(1,168,485)	(181,324)
Application inspection and debt collection	(1,527,394)	(351,408)
Depreciation and amortisation	(628,200)	(213,156)
IT expenses	(589,201)	(192,419)
Communication	(272,704)	(233,351)
Professional services*	(228,249)	(27,647)
Bank fee	(186,963)	(110,003)
Other	(596,106)	(319,961)
Total general administrative and commercial expenses	**(10,297,815)**	**(5,120,387)**

*Professional services include audit fees with amount of GEL15,290 (excluding VAT) for the year ended 31 December 2017.

17. COMMITMENTS AND CONTINGENCIES

LITIGATION

In the ordinary course of business, companies are usually subject to legal actions and complaints.

Following the Organisation's customers' failure to meet loan repayment obligations the Organisation is involved in legal disputes against such customers. The highest possible outcome from such legal disputes is the amount of loans receivable from such customers (including accrued interest and other charges).

As it is not certain that all the customers will meet the repayment obligations, the Organisation recognises provision for impairment for such loans, as disclosed in Note 7.

18. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

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

Financial assets and financial liabilities that are liquid or have a short term maturity it is assumed that the carrying amounts approximate to their fair value.

GENERAL OBJECTIVES, POLICIES AND PROCESSES

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

The overall objective of the supervisory board is to set polices that seek to reduce risks as far as possible without unduly affecting the Organisation's competitiveness and flexibility. Further details regarding these policies are set out below. Through its operations, the Organisation is exposed to the following financial risks:

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

CREDIT RISK

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

As the Organisation is providing loans to customers as the core business activity credit risk is of crucial importance similar to any financing institutions risk management process. To avoid significant financial damage caused by this risk the Organisation uses various methods to identify and manage them effectively.

The Organisation has developed policies and procedures for the management of credit exposures (both for on balance sheet and off-balance sheet exposures). The credit policy is reviewed and approved by supervisory board.

The Organisation continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on updated financial information of clients obtained by credit staff from monitoring and later the information is cross-checked on a risk based assessment by management.

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

	31 December 2017	31 December 2016
Cash and cash equivalents (excluding cash on hand)	784,233	1,856,642
Loans granted	50,433,335	28,534,979
Other assets	986,304	1,009,772
Total credit risk exposure	**52,203,872**	**31,401,393**

The Organisation's credit exposure related to loans to customers is disclosed in Note 7.

18. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK

Liquidity risk refers to the availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they actually fall due.

In order to manage liquidity risk, the Organisation performs regular monitoring of future expected cash flows, which is a part of assets/liabilities management process. An analysis of the liquidity and interest rate risks is presented in the following tables. The presentation below is based upon the information provided by key management personnel of the Organisation.

Liquidity of Financial assets and liabilities as at 31 December 2017 can be presented in the following table:

Financial liabilities	Up to 3 months	3 months to 1 year	1 year to 3 years	Total
Borrowings	20,676,252	34,632,514	40,904,698	**96,213,464**
Other liabilities	4,358,718	-	-	**4,358,718**
Total financial liabilities	**25,034,970**	**34,632,514**	**40,904,698**	**100,572,182**

Liquidity of Financial assets and liabilities as at 31 December 2016 can be presented in the following table:

Financial liabilities	Up to 3 months	3 months to 1 year	1 year to 3 years	Total
Borrowings	19,333,881	23,305,166	774,735	**43,413,782**
Other liabilities	787,064	-	-	**787,064**
Total financial liabilities	**20,120,945**	**23,305,166**	**774,735**	**44,200,846**

MARKET RISK

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

- **CURRENCY RISK**

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

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

Financial assets	GEL	EUR	USD
Cash and cash equivalents	960,636	27,157	12,763
Loans granted	49,647,672	785,663	-
Other assets	-	986,304	-
Total financial assets	**50,608,308**	**1,799,124**	**12,763**
Financial liabilities			
Borrowings	3,164,932	70,024,921	-
Other liabilities	574,510	3,650,860	133,348
Total financial liabilities	**3,739,442**	**73,675,781**	**133,348**
Open balance sheet position	**46,868,866**	**(71,876,657)**	**(120,585)**

18. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (CONTINUED)

The Organisation's exposure to foreign currency exchange rate risk as at 31 December 2016 is presented in the tables below:

Financial assets	GEL	EUR	USD
Cash and cash equivalents	2,109,767	6,433	292
Loans granted	25,466,033	3,068,946	-
Other assets	-	1,009,772	-
Total financial assets	**27,575,800**	**4,085,151**	**292**
Financial liabilities			
Borrowings	-	43,413,782	-
Other liabilities	385,893	381,570	19,602
Total financial liabilities	**385,893**	**43,795,352**	**19,602**
Open balance sheet position	**27,189,907**	**(39,710,201)**	**(19,310)**

The following table details the Organisation's sensitivity to a 20% increase and decrease in the foreign currency exchange rates against GEL and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the year for a 20% change in foreign currency rates. Impact on the statement of comprehensive income and equity based on financial instrument values as at 31 December 2017 and 2016 can be presented as follows:

Sensitivity of the fluctuation of the market exchange rates	(GEL / EUR)	(GEL / USD)	(GEL / EUR)	(GEL / USD)
20% increase	(14,375,331)	(24,117)	(7,943,268)	(2,634)
20% decrease	14,375,331	24,117	7,943,268	2,634

The analysis assumes that all other variables, in particular interest rates, remain constant.

- **INTEREST RATE RISK**

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

The information about maturities of interest bearing financial assets is given in liquidity risk quantitative disclosures above.

The Organisation's all interest-bearing assets and liabilities are at fixed interest rates, therefore market interest rate fluctuations do not affect the Organisation's income or expenses.

19. MANAGEMENT OF CAPITAL

The Organisation's objectives when maintaining capital are:

- To safeguard the Organisation's ability to continue as a going concern, so that it can continue to operate sufficiently;
- To comply with the capital requirements set by National Bank of Georgia;
- To provide an adequate return to shareholders.

The Organisation sets the amount of capital it requires in proportion to risk. The Organisation manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

In order to maintain or adjust the capital structure, the Organisation may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

20. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", could be one or more of the following:

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

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

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

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

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

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

Financial statement caption	Parent	EUCC*	Key management personnel
Statement of financial position			
Other assets	986,303		-
Loans granted	785,663		
Borrowings	-	22,417,968	
Other liabilities	219,330		-
Statement of comprehensive income			
Interest income	25,086		
Loss on disposal of impaired loans	(1,151,040)		-
Interest expense	(2,090,553)	(228,588)	-
General administrative expenses	(989,246)		(188,480)

*Entity Under Common Control.

Related party balances and transactions as and for the year ended 31 December 2016:

Financial statement caption	Parent	Key management
Statement of financial position		
Borrowings	20,063,891	-
Other liabilities	305,655	30,000
Statement of comprehensive income		
Interest expense	(1,055,969)	-
General administrative and commercial expenses	(587,978)	(199,760)

21. EVENTS AFTER THE REPORTING PERIOD

CHANGES IN GEORGIAN LEGISLATION

On 1 September 2018 legislative changes were put into force in Civil Code of Georgia again, which restricted the maximum effective interest rate for lending transactions to be up to 50% per annum (previously stated as 100% per annum).