Financial Statements and Independent Auditor's Report

Limited Liability Company Microfinance Organization BaniCredit

31 December 2018

Contents

Grant Thornton

An instinct for growth™

Independent auditor's report

შპს გრანთ თორნთონ
ქეთევან წამებულის გამზირი 54
0144, თბილისი, საქართველო
ტ.+ 995 322 604 406

Grant Thornton LLC
54 Ketevan Tsamebuli Avenue
0144 Tbilisi, Georgia
T + 995 322 604 406

To the shareholders of Limited Liability Company "Microfinance Organization BaniCredit":

Adverse Opinion

We have auditied the accompanying financial statements of Limited Liability Company "Microfinance Organization BaniCredit" (the Company), which comprise the statement of financial position as of December 31, 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, because of the significance of the metter discussed in the *Basis for Adverce Opinion* paragraph, the financial statements do not present fairly the financial position of the Company as of December 31, 2018, and their financial performance and the cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Adverse Opinion

As explained in Note 2.5 to the financial statements, the Company has not yet adopted the new IFRS 9, because the Company's internal accounting systems are not yet designed to provide full information required for compliance with this standard's requirements. The management intends to fully adopt IFRS 9 for the reporting year ending 31 December 2019. IFRS 9 "Financial Instruments" is effective for annual periods beginning on or after 1 January 2018, and considering the nature of the Company's business and significance of financial instruments for the financial statements of the Company, in our opinion, the fact that the standard has not been adopted has material and pervasive effect on the financial statements.

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 (the "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 those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Management reporting

Management is responsible for the Management Reporting. The Management Reporting comprises the information about the activities of the Company, risk analysis, future plans and other matters as required by the Law of Georgia on Accounting, Reporting and Auditing. The Management Reporting is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the Management Reporting.

In connection with our audit of the financial statements, our responsibility is to read the Management Reporting identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated and to present relevant report.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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 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 omissions, misrepresentations, or the override of internal control.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company 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.

Vakhtang Tsabadze
Managing Partner
14 June 2019

Ketevan Ghambashidze
Registered Auditor

Grant Thornton 200136600

Statement of financial position

In Georgian lari	Note	As of 31 December 2018	As of 31 December 2017
Assets			
Cash and cash equivalents	6	202,481	90,800
Loans to customers	9	1,622,165	1,871,847
Property and equipment	4	521,943	472,998
Intangible assets		18,537	21,378
Deferred income tax	10	37,034	3,888
Other assets	5	290,077	153,130
Total assets		2,692,237	2,614,039
Liabilities and equity			
Liabilities			
Borrowings	7	3,408,306	3,089,119
Interest payable		41,906	69,425
Other liabilities	8	38,962	26,272
Total liabilities		3,489,174	3,184,816
Equity			
Share capital		2,480,669	2,178,508
Additional contributions to equity		35,423	35,423
Retained earnings		(3,313,029)	(2,784,708)
Total equity		(796,937)	(570,777)
Total liabilities and equity		2,692,237	2,614,039

The financial statements were approved on 12 May 2019 by:

Vakhtang Chikovani
Executive Director

Rima Dolidze
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 33.

Statement of profit or loss and other comprehensive income

In Georgian lari	Note	Year ended December 31 2018	Year ended December 31 2017
Interest and similar income	11	398,168	255,139
Interest and similar expense		(349,955)	(356,019)
Net interest income / (expense)		48,213	(100,880)
(Loan loss expense) / recovery	9	(352,895)	(93,616)
Net interest income/(expense) after losses		(304,682)	(194,496)
Profit/(loss) from revaluation of foreign currency		5,644	(64,176)
Profit/(loss) from foreign currency dealing operations		(8,891)	(3,370)
Staff costs		(169,558)	(146,620)
Depreciation expense		(5,255)	(7,290)
Amortization expense		(2,841)	(3,147)
Other expenses	12	(75,884)	(99,502)
Profit/(loss) before income tax		(561,467)	(518,600)
Income tax (expense)/recovery	10	33,146	(4,580)
Profit for the year		(528,321)	(523,180)
Other comprehensive income		-	-
Total comprehensive income for the year		(528,321)	(523,180)

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 33.

Statement of changes in equity

In Georgian lari	Share capital	Additional contribution to equity	Retained earnings / (Accumulated loss)	Total
as of 1 January 2017	332,600	35,423	(2,261,528)	(1,893,504)
Increase in share capital	1,845,908	-	-	1,845,908
Total transactions with owners	*1,845,908*	-	-	*1,845,908*
Profit / (loss) for the year	-	-	(523,180)	(523,180)
Total comprehensive income	-	-	*(523,180)*	*(523,180)*
as of 31 December 2017	2,178,508	35,423	(2,784,708)	(570,777)
Increase in share capital	302,161	-	-	302,161
Total transactions with owners	*302,161*	-	-	*302,161*
Profit / (loss) for the year	-	-	(528,321)	(528,321)
Total comprehensive income	-	-	*(528,321)*	*(528,321)*
as of 31 December 2018	2,480,669	35,423	(3,313,029)	(796,937)

Statement of cash flows

In Georgian lari	Year ended December 31 2018	Year ended December 31 2017
Cash flows from operating activities		
Interest received from borrowings	325,651	165,947
Loan principal covered by borrowings	1,054,040	545,992
Loans issued	(1,127,300)	(877,886)
Salaries paid	(138,630)	(120,139)
Operating tax paid	(63,476)	(53,655)
Cash paid for communal services	(8,333)	(6,844)
Cash paid for rent	(9,775)	(26,587)
Bank service	(1,855)	(1,389)
Other cash payments	(149,177)	(276,045)
Net cash from / (used for) operating activities	(118,855)	(650,606)
Cash flows from investing activities		
Cash paid for acquisition and development of PP&E	(14,763)	-
Cash paid for acquisition of intangible assets	-	(21,000)
Net cash provided from investing activities	(14,763)	(21,000)
Cash flows from financing activities		
Replenishment of Capital	302,161	1,661,568
Loans received	2,262,685	223,552
Interest paid	(362,480)	(400,531)
Loans returned	(1,949,646)	(753,363)
Net cash provided from financing activities	252,720	731,225
Net increase / (decrease) in cash and cash equivalents	119,102	59,619
Cash and cash equivalents at the beginning of the period	90,800	34,453
Exchange rate difference	(7,421)	(3,272)
Cash and cash equivalents at the end of the period	202,481	90,800

Notes to the financial statements

1 Nature of operations and general information

These financial statements include financial information of Microfinance organization Banicrediti LLC (the Company). Which is a limited liability company, was established in 2010 and from the day of the establishment until now it issues loans, - having its business address at Tbilisi, Gakhokidze str. #6. The shareholders of the Company are:

Shareholder	**Share**	
	31-Dec-2018	31-Dec-2017
Abesalom Shavgulidze, Citizen of Georgia	20.00%	20.00%
Maka Gotsiridze, Citizen of Georgia	60.00%	00.00%
Edward Pope, Citizen of Great Britain	10.00%	70.00%
Vakhtang Chikovani, Citizen of Georgia	10.00%	10.00%
Total	100.00%	100.00%

The average number of employees of the Company during 2018 was 6 employees (2017: 6 employees).

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception for certain financial instruments that are stated at present discounted value of future cash flows. The details of measurement for each category of assets and liabilities are disclosed further in these notes.

2.3 Functional and presentation currency

The national currency of Georgia is the Georgian lari ("lari"), which is the Company's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Company.

2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRSs requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the note 13 to the financial statements.

2.5 Adoption of new and revised standards

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2018.

The nature and the effect of these changes are disclosed below. These new standards and amendments are applied for the first time in 2018.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2018

Following relevant new standards, revisions and amendments to existing standards were issued by the IASB, which are effective for the accounting period beginning on or after January 1, 2018:

Standard	Title	Effective date
IFRS 9	Financial Instruments (note 3.6)	January 1, 2018
IFRS 15	Revenue from Contracts with Customers (note 3.11)	January 1, 2018
IAS 28	Investments in Associates and Joint Ventures	January 1, 2018

Only adoption of IFRS 9 is relevant for the Company's financial statements, however the Company has not yet adopted the new IFRS 9, because our internal accounting systems are not yet designed to provide full information required for compliance with this standard's requirements. The management intends to fully adopt IFRS 9 for the reporting year ending 31 December 2019.

Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company

For the financial year of these financial statements, the following relevant new standards, interpretations and amendments to existing standards have been published but are not yet effective and have not been adopted early by the Company. Information on the relevant new standards, amendments and interpretations that are not yet effective for these financial statements has been provided below.

New standards and significant amendments to standards:	Effective for annual periods beginning on or after
IFRs 16, leases. The IASB issued the new standard for accounting for leases. (a) The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognize most leases on the balance sheets as lease liabilities, with the corresponding right-of-use assets. (b) Lessees must apply a single model for all recognized leases but will have the option not to recognize 'short-term' leases and leases of 'low-value' assets. (c) Generally, the profit or loss recognition pattern for recognized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized separately in the statement of profit or loss. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. Management has yet to assess the impact of this revised standard on the Company's financial statements.	January 1, 2019
Annual Improvements to IFRS 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23	January 1, 2019
IFRIC 23 Uncertainty over Income Tax Treatments: The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: Whether tax treatments should be considered collectively; Assumptions for taxation authorities' examinations;	January 1, 2019

New standards and significant amendments to standards:	Effective for annual periods beginning on or after
The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and the effect of changes in facts and circumstances.	
Amendments in IFRS 9 Financial Instruments relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	January 1, 2019
Amendment to IAS 19 Employee Benefits: The amendments clarify that: on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.	January 1, 2019
Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 1, 2019
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	January 1, 2020
Amendments to IFRS 10 Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that all the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. The Company's management has yet to assess the impact of these changes on the financial statements.

3 Significant accounting policies

3.1 Foreign currencies

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the National Bank of Georgia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the National Bank of Georgia prevailing on the reporting date, which is 2.6766 lari for 1 US dollar and 3.0701 lari for 1 euro as of 31 December 2018 (31 December 2017: 2.5922 lari for 1 US dollar, 3.1044 lari for 1 euro). Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date), except for non-monetary items carried at fair value that are denominated in foreign currencies which are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

3.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Properties in the course of construction for production, rental or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes directly attributable expenditures, site preparation, installation and assembly costs, professional fees and for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Buildings that are leasehold property are also included in property, plant and equipment if they are held under a finance lease. Such assets are depreciated over their expected useful or over the term of the lease, if shorter.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Expenditure to replace a component of an item of property, plant and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in profit or loss as incurred.

Depreciation is charged to profit or loss or is added to the cost of other asset on a straight line method over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

Buildings and facilities	- 30 years
Computers	- 5-years
Furniture and other	- 5 years
Other fixed assets	- 7-10 years

3.3 Intangible assets

Intangible assets, which are acquired by the Company and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight line method over the estimated useful lives of the intangible assets, which is estimated at 5-7 years for software, rights and others.

Intangible asset with an indefinite useful life are not amortized, instead they are tested for impairment by comparing its recoverable amount with its carrying amount annually, and whenever there is an indication that the intangible asset may be impaired.

3.4 Leased assets

In accordance with IAS 17 *Leases*, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as an obligation under finance lease, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreements, i.e. depreciation methods and useful lives, correspond to those applied to comparable assets which are legally owned by the Company. The corresponding obligation under finance lease is reduced by lease payments less finance charges, which are expensed to finance costs. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a reducing balance basis. Associated costs, such as maintenance and insurance, are expensed as incurred.

3.5 Inventories

Inventories are assets held for sale in the ordinary course of business or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Items such as spare parts, stand-by equipment and servicing equipment are also recognized as inventories unless they meet the definition of property and equipment.

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the Average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.6 Financial instruments

Recognition, valuation and write-off of financial instruments

The Company recognizes financial assets and liabilities on its statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

When financial assets and financial liabilities are recognized initially ,they are measured at fair value, plus directly attributable transaction costs, except the financial assets and liabilities that are measured at fair value and the changed fair value is recognized in profit or loss. The last one will initially be recognized at fair value.

After initial recognition all financial liabilities, other than liabilities at fair value through profit or loss (including held for trading) are measured at amortized cost using effective interest method. After initial recognition financial liabilities at fair value through profit or loss are measured at fair value.

The Company classified its financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial instruments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not queried in the active market and this category of financial assets includes loans, receivables and other assets, cash and cash on bank accounts.

Loans with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

3.6.1 Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Criteria used to determine that there is objective evidence of an impairment loss may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty (for example, equity ratio, net income percentage of sales), default or delinquency in interest or principal payments, breach of loan covenants or conditions, deterioration in the value of collateral, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of profit or loss and other comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Company may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

3.6.2 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

3.7 Impairment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment of property, plant and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

3.8 Capital

The company's share capital is defined by the company's charter. The changing in the Company's Charter (including the changes in the equity capital, the owners, etc.) is carried out by the company's partners. Accumulated profit-loss contains accumulated profits-loss of current and previous periods. All transactions related to the owners of the company, when they are owners, are registered in the Capital Movement statement in separate articles. Payable dividends will be recognized as obligations in the period when declared.

3.9 Provisions

A provision is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.10 Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Changes in corporate income tax effective from January 1, 2023

Effective January 1, 2023, there will be significant amendments to the Tax Code of Georgia, related to introduction of a new model for corporate income taxation.

The new model (the "Estonian model of corporate taxation") implies zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the company's profit before tax, regardless of profit retention or distribution. As a result of changes, starting 1 January 2023 financial institutions in Georgia will pay corporate income tax on earnings distribution (profit distributed to shareholders as dividends) and on individual transactions that may be considered as indirect distribution of earnings (benefits, gifts, payments, non-arm's length cross-border transactions with related parties, expenses not related to economic activities, etc).

The corporate income tax arising from distribution of dividends is recognized as an expense in the period when dividends will be declared, regardless of the actual payment date or the period for which dividends are distributed. The tax rate is 15/85 of the amount of net distribution.

For tax payable on any dividends declared and paid in 2023 and later, from earnings accumulated prior to 2022, tax credit is available for corporate income tax paid on undistributed earnings under the previous model.

According to the amended concept of corporate income taxation, there will be no temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Therefore, deferred tax assets and liabilities, as defined in IAS 12 Income Taxes, are not formed subsequent to 1 January 2023..

3.11 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Company and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within "interest income" and "interest expense" in the statement of profit or loss and other comprehensive income using the effective interest method.

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 continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts.

The impact of adoption of IFRS 15 on the Company's financial statements

The management considers that this change has no material impact on the opening retained earnings or on the amount of revenues recognized due to the nature of the business of the Company. The management did not make adjustments to previously reported figures for this effect of adoption of IFRS 15 as it was considered clearly immaterial.

3.12 Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Company classifies investments as a cash equivalent if it is readily convertible to a known amount of cash and is subject to an insignificant risk of changes in value.

4 Property, plant and equipment

In Georgian lari	CIP	Buildings	Computers	Furniture	Other	Total
Cost						
as of 1 January 2017	-	-	8,299	9,420	37,503	55,222
Transfer from investment property	462,248	-	-	-	-	462,248
as of 31 December 2017	462,248	-	8,299	9,420	37,503	517,469
Additions	31,900	-	1,806	8,894	11,600	54,200
Internal movements	(494,148)	494,148	-	-	-	-
as of 31 December 2018	-	494,148	10,105	18,314	49,103	571,670
Accumulated depreciation and impairment						
as of 1 January 2017	-	-	7,449	6,548	23,185	37,182
Charge for the year	-	-	593	1,215	5,482	7,290
as of 31 December 2017	-	-	8,043	7,762	28,667	44,471
Charge for the year	-	1,759	403	921	2,172	5,255
as of 31 December 2018	-	1,759	8,446	8,683	30,839	49,726
Carrying amount						
as of 31 December 2017	462,248	-	256	1,658	8,836	472,998
as of 31 December 2018	-	492,389	1,659	9,631	18,264	521,943

As of December 31, 2018 and 2017 none of the Company's property and equipment were pledged as collaterals for any liability.

5 Other assets

In Georgian lari	Year ended December 31 2018	Year ended December 31 2017
Other Debtors	30,995	43,038
Total other financial assets	-	43,038
Repossessed assets	200,251	84,092
Other prepaid taxes	58,831	26,000
Total non-financial assets	259,082	110,092
Impairment allowance	-	-
Total other assets	290,077	153,130

Repossessed assets

In Georgian lari	Year ended December 31 2018	Year ended December 31 2017
Real Estate	78,010	78,010
Vehicles	122,241	6,082
Total Repossessed assets	200,251	84,092

All amounts are short-term. The net carrying value of other receivables is considered a reasonable approximation of fair value. The Company's management has not created allowance for other debtors as there was no indication of impairment loss on events that could cast a doubt on the collectability of other debtors.

6 Cash and bank balances

In Georgian lari	As of 31 December 2018	As of 31 December 2017
Bank accounts	188,449	89,536
Cash in hand	14,032	1,263
	202,481	90,800

7 Loans and borrowings

In Georgian lari

	Current	
	As of 31 December 2018	As of 31 December 2017
Borrowings from individuals	2,389,656	1,338,869
Borrowings from legal entities	1,018,650	1,750,250
	3,408,306	3,089,119

Annual interest rate on borrowed funds ranges from 12% to 13%, which is approximately equivalent to market rates for the given period. All loans are short-term. Obtained loans are not secured by any assets of the company and the loan agreements do not require any conditions, for example, certain indicators of financial coefficients.

8 Other liabilities

In Georgian lari	As of 31 December 2018	As of 31 December 2017
Liabilities to various services and goods suppliers	14,820	2,432
Total other financial liabilities	14,820	2,432
Payable taxes	-	4,457
Other non-financial liabilities	24,143	19,384
Total other non-financial liabilities	24,143	23,840
Total other liabilities	38,962	26,272

9 Loans to customers

In Georgian lari	As of 31 December 2018	As of 31 December 2017
Loans to customers	1,827,469	1,965,463
Less allowance for loan impairment	(205,304)	(93,616)
Total loans to customers	1,622,165	1,871,847

The changing in allowance for loan impairment in this period consists of:

In Georgian lari	Year ended 31 December 2018	Year ended 31 December 2017
1 January	93,616	64,901
+ Expense of Doubtful debts for the period	352,895	28,715
- A previously recognized doubtful debts written off as expenses	(241,207)	-
- Recovery of previously recognized doubtful debts	-	-
31 December	205,304	93,616

In Georgian lari	As of 31 December 2018	As of 31 December 2017
Impairment on an individual basis	-	-
Impairment on a group basis	205,304	93,616
	205,304	93,616

At 31 December 2018, effective annual interest rate on consumer loans was 24% -49% (2017: 24% - 96%). The fair value of loans issued to customers at 31 December 2018 and 31 December 2017 is approximately equal to their carrying amount. The maturity of the loans is analysed in Note 20. Analysis of the credit, currency and interest rate risks issued by loans is highlighted in Note 15.

10 Deferred Income Tax

In Georgian Lari	2018 year	2017 year
Current tax expense	-	-
Deferred tax	33,146	(4,580)
Total income tax expense	33,146	(4,580)

In 2018, the profit tax rate applicable to microfinance organizations' taxable profit in Georgia was 15% (2017 15%). Difference between international financial reporting standards and tax legislation lead to temporary differences between carrying amount of a number of assets and liabilities for calculation of income tax. Deferred tax assets are calculated at a 15% tax rate. Calculation of deferred taxes in relation to temporary differences:

In Georgian lari	As of Dec 31, 2016	Recognition in P&L for the year ended Dec 31, 2017	As of Dec 31, 2017	Recognition in P&L for the year ended Dec 31, 2018	As of Dec 31, 2018
Loans to customer	9,735	4,307	14,042	16,753	30,796
Property and equipment	(1,267)	(8,887)	(10,154)	16,393	6,238
Total deferred tax asset (liability)	8,468	(4,580)	3,888	33,146	37,034

11 Interest and similar income

In thousands of Georgian lari	Year ended 31 December 2018	Year ended 31 December 2017
Loans and advances for individuals	269,114	139,551
Loans and advances for legal entities	57,614	45,673
Penalty and commission revenue	71,440	69,915
Total interest income from loans issued for consumers	398,168	255,139

12 Other expenses

The cost of goods sold includes the following expenses:

In Georgian lari	Year ended 31 December 2018	Year ended 31 December 2017
Office rent	5,512	23,695
Fuel expenses	300	38
Security	2,603	2,400
Office supplies	6,454	4,818
Maintenance costs	9,858	-
Communication	4,850	3,462
Consulting expenses	7,381	21,416
Advertisement	6,834	6,854
Bank commissions	1,047	868
Representational expenses	2,590	399
Taxis, other than income tax, duties	13,070	14,352
Other expenses	15,385	21,199
Total other expense	75,884	99,502

13 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

13.1 Critical accounting estimates

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates may be different from the related actual results. 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.

Useful lives of property and equipment

Management has estimated useful lives of the property, plant and equipment. Management believes that estimated useful lives of the property, plant and equipment are not materially different from economic lives of those assets. If actual useful lives of property, plant and equipment are different from estimations, financial statements may be materially different.

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. Estimated fair values may vary from the actual prices that would be achieved between Independent parties at the reporting date (see note 19)..

Bad debts

The Company reviews loans and receivables at each reporting date on impairment loss. In particular, judgement by management is required for determining the size of the loss, although the amount and timing of future cash flows. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance (see note 10). In addition to specific allowances against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Market interest rate

Management has estimated market interest rates which are used to evaluate fair value of Company's financial instruments. Changes in market interest rates may affect reported amounts of financial liabilities and finance costs.

13.2 Key assumptions concerning the future

The management expects there will be no negative developments on the market or in regulations that would afect the Company's ability to continue operations as a going concern. The management believes there are no other material risks to the Company's ability to continue operations in usual manner and to become profitable eventually.

14 Financial instruments

14.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3.

14.2 Categories of financial instruments

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

Financial assets

In Georgian lari	As of 31 December 2018	As of 31 December 2017
Financial assets measured at amortized cost		
Loans and advances to customers	1,622,165	1,871,847
Cash and bank balances	202,481	90,800
	1,824,646	1,962,647

Financial liabilities

In Georgian lari	As of 31 December 2018	As of 31 December 2017
Financial liabilities measured at amortized cost:		
Loans and borrowings	3,450,212	3,158,544
Trade and other payables	38,962	26,272
	3,489,174	3,184,816
Net position	(1,664,528)	(1,222,169)

15 Financial risk management

The Company is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

Financial risk factors

a) *Market risk*

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk and interest rate risk which result from both its operating and investing activities.

Foreign currency risk

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

Most of the Company's trade transactions are carried out in Georgian lari. Exposures to currency exchange rates risk mainly arise from the Company's loans which are denominated in foreign currencies. Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts shown are those reported to key management translated into Georgian lari at the closing rate:

item					
As of 31 December 2018	**GEL**	**USD**	**EUR**	**GBP**	**Total**
Financial assets					
Cash and cash equivalents	178,164	23,447	509	360	202,481
Loans to customers	1,309,063	641,210	-	-	1,950,273
Other Deposits	30,995	-	-	-	30,995
	1,518,222	664,657	509	360	2,183,749
Financial liabilities					
Loans and borrowings	198,136	2,191,520	-	1,018,650	3,408,306
Trade and other payables	38,962	-	-	-	38,962
	237,099	2,191,520	-	1,018,650	3,447,269
Net position	1,281,123	(1,526,863)	509	(1,018,290)	(1,263,520)

Item As of 31 December 2017	GEL	USD	EUR	GBP	Total
Financial assets					
Cash and cash equivalents	86,549	2,270	1,981	-	90,800
Loans to customers	738,676	1,190,625	-	36,163	1,965,463
Other Deposits	43,038	-	-	-	43,038
	868,262	1,192,895	1,981	36,163	2,099,301
Financial liabilities					
Loans and borrowings	12,000	1,326,870	-	1,750,250	3,089,119
Total financial liabilities	26,272	-	-	-	26,271
	38,272	1,326,870	-	1,750,250	3,115,390
Net position	829,990	(133,975)	1,981	(1,714,087)	(1,016,089)

The following table details the Company's sensitivity to a 10% (2018: 10%) increase in Georgian lari against foreign currency. 10% (2018: 10%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2017: 10%) change in foreign currency rates.

If Georgian lari had strengthened by 10% (2018: 10%) then this would have had the following impact:

In thousands of Georgian lari

	US dollar impact		EUR impact		GBP impact	
	2018	2017	2018	2017	2018	2017
Profit or (loss)	152,686	13,398	(51)	(198)	101,809	171,409

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency transactions and balances. Nonetheless, the analysis above is considered to be representative of the Company's exposure to currency risk.

Interest rate risk

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating rates. This risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings

The Company's sensitivity to interest rates would increase/decrease mainly due to changes of floating interest rate which is LIBOR and NBG refinancing rates.

The following table reconciles the average contract and effective interest rates:

2018	Average interest rate	
	Contract	Effective
Liabilities		
Secured bank loans		
Georgian lari	10.37%	11.03%
US dollar	8.83%	9.31%
GBP	7.80%	8.23%
Euro	7.40%	7.48%

2017	Average interest rate	
	Contract	Effective
Liabilities		
Secured bank loans		
Georgian lari	12.00%	12.00%
US dollar	9.00%	9.00%
GBP	8.20%	8.70%
Euro	8.00%	8.10%

b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The effect of this risk for the Company arises from different financial instruments, such as accounts receivable. The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

In Georgian lari	As of 31 December 2018	As of 31 December 2017
Financial assets at carrying amounts		
Loans and advances to customers	1,622,165	1,871,847
Bank balances	202,481	90,800
	1,824,646	1,962,647

At the reporting date there was no significant concentration of credit risk in respect of trade and other receivables.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks.

c) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its obligations.

The Company's policy is to run a prudent liquidity management policy by means of holding sufficient cash and bank balances, as well as highly liquid assets for making all operational and debt service related payments when those become due.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

31 DEC, 2018 In Georgian Lari	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	**Total 12 months**	From 1 to 5 years	More than 5 years	**Total**
Borrowings	878,463	539,375	1,990,468	3,408,306	-	-	3,408,306
Other financial liabilities	14,820	-	-	14,820	-	-	14,820
	893,282	539,375	1,990,468	3,423,126	-	-	3,423,126

31 DEC, 2017 In Georgian Lari	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	**Total 12 months**	From 1 to 5 years	More than 5 years	**Total**
Borrowings	796,195	488,863	1,804,061	3,089,119	-	-	3,089,119
Other financial liabilities	-	-	-	-	-	-	-
	796,195	488,863	1,804,061	3,089,119	-	-	3,089,119

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources and trade receivables.

16 Fair value measurements

The Company provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - fair value measurements are those derived from 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); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

16.1 Fair value measurement of financial instruments

The Company has no financial assets or financial liabilities measured at fair value on a recurring basis as of 31 December 2018 and 31 December 2017.

The fair of financial instruments measured at amortized cost approximate their fair values.

17 Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern and provide adequate return to stakeholders.

The capital structure of the Company consists of equity comprising charter capital and accumulated profits and debt, which includes borrowings disclosed in note 0.

Management assesses the Company's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. This takes into account the subordination levels of the Company's various classes of debt. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The amounts managed as capital by the Company for the reporting periods are summarized as follows:

In Georgian lari	As of 31 December 2018	As of 31 December 2017
Total equity	830,083	570,777
Less: cash and bank balances	(202,481)	(90,800)
Capital	627,602	479,977
Total equity	830,083	570,777
Borrowings	(3,408,306)	(3,089,119)
Overall financing	(2,578,223)	(2,518,342)
Capital to overall financing ratio	(0.24)	(0.19)

18 Contingencies

18.1 Business environment

Georgia continues to undergo political and economic changes. As an emerging market, Georgia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crisis. Deterioration of economic situation of countries collaborating with Georgia led to the shortage of money transfers from abroad, upon which the economy of Georgia is significantly dependent. Further depreciation of the national currency leads to increase of prices on imported goods. There are uncertainties over attraction of significant volumes of direct capital investments. These and other circumstances may lead to deterioration of situation in the Georgian economy and of the Company. However, as there are a number of variables and assumptions involved in these uncertainties, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Company may be affected. Management of the Company believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Company.

18.2 Taxes

The taxation system in Georgia is relatively new and is characterized by frequently changing legislation, which is often subject to interpretation. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose severe fines and penalties. These facts may create tax risks in Georgia substantially more than in other developed countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

18.3 Environmental matters

Environmental legislation in Georgia is in process of development and there may be some changes in the legislation which may be relevant for the Company's operations. However, the management is of the opinion that the Company has met the Government's requirements concerning environmental matters and believes that the Company does not have any current material environmental liabilities and it is not expected that material environmental liabilities will arise in the future periods.

19 Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

In Georgian lari	Long-term borrowings	Short-term borrowings	Total
As of 1 January 2018	-	3,158,544	3,158,544
Cash-flows			
Proceeds received	-	2,262,685	2,262,685
Interest accrued	-	389,567	389,567
Repayments of principal	-	(1,949,646)	(1,949,646)
Repayments of interest	-	(362,480)	(362,480)
Non-cash			
Foreign exchange (gain)/loss	-	(48,458)	(48,458)
as of 31 December 2018	-	3,450,212	3,450,212

20 Maturity analysis of assets and liabilities

The table below reflects the carrying values of financial assets and liabilities according to contractual maturities.

31 December, 2018

In Georgian Lari	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	**Total 12 months**	From 1 to 5 years	More than 5 years	Subtotal over 12 months	**Total**
Assets								
Cash and cash equivalents	202,481			202,481			-	202,481
Loans to customers	254,173	446,798	295,064	996,036	651,015		651,015	1,647,050
Other debtors	30,995			30,995			-	30,995
	487,649	446,798	295,064	1,229,512	651,015	-	651,015	1,880,526
LIABILITIES								
Borrowing	878,463	539,375	1,990,468	3,408,306	-	-	-	3,408,306
Other liability	14,820			14,820			-	14,820
	893,282	539,375	1,990,468	3,423,126	-	-	-	3,423,126
Net position	(405,633)	(92,577)	(1,695,404)	(2,193,614)	651,015	-	651,015	(1,542,599)
Accumulated gap	(405,633)	(498,210)	(2,193,614)		(1,542,599)	(1,542,599)		

31 December, 2017

In Georgian Lari	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Total 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets								
Cash and cash equivalents	90,800	-	-	90,800	-	-	-	90,800
Loans to customers	293,295	515,569	340,480	1,149,344	751,218		751,218	1,900,562
Other debtors	43,038			43,038			-	43,038
	427,133	515,569	340,480	1,283,182	751,218	-	751,218	2,034,400
LIABILITIES								
Borrowing	796,195	488,863	1,804,061	3,089,119	-	-	-	3,089,119
Other liability				-			-	-
	796,195	488,863	1,804,061	3,089,119	-	-	-	3,089,119
Net position	(369,062)	26,706	(1,463,581)	(1,805,937)	751,218	-	751,218	(1,054,719)
Accumulated gap	(369,062)	(342,356)	(1,805,937)		(1,054,719)	(1,054,719)		

23 Capital adequacy

As of 31 December 2018 the law of Georgia on Microfinance Organizations requires a microfinance organization to have as a minimum GEL 500,000 of supervisory capital, which includes charter capital and subordinated loans. The Company complies with these requirements. The principal objectives of capital management, for the purpose of doing business and to maximize the shareholders' benefits are the company's compliance with domestic requirements for equity, as well as maintaining a positive credit rating and capital structure.