LENDO GROUP

CONSOLIDATED FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the year ended 31 December 2018

CONTENTS:

BDO

Tel: +995 32 2545 845
Fax: +995 32 2188 188
www.bdo.ge

2 Tarkhnishvili street
Vere Business Center
0179 Tbilisi
Georgia

INDEPENDENT AUDITORS' REPORT

To the Shareholder and Management of LENDO GROUP

Qualified Opinion

We have audited the consolidated financial statements of **LENDO GROUP**, (hereinafter - the Group) which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Qualified Opinion

The Group has not provided reconciliation from the opening balance to the closing balance of loan allowance to explain the changes in the loss allowance and the reasons of changes separately by class of financial instrument for which loss allowance is measured at an amount equal to 12-month expected credit losses, equal to lifetime expected credit losses and for financial assets that are purchased or originated credit-impaired as required by IFRS 7 (Clause 35H) which constitutes a departure from IFRSs.

The Group has not disclosed the gross carrying amount of financial assets and exposure to credit risk on loan commitments by credit risk rating grades separately for financial instruments for which the loss allowance is measured at an amount equal to 12-month expected credit losses, equal to lifetime expected credit losses and for purchased or originated credit-impaired financial assets as required by IFRS 7 (Clause 35M) which constitutes a departure from IFRSs.

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 Group 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 qualified opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Group incurred a net loss of GEL6,433,992 during the year ended 31 December 2018 and, as of that date, the Group had a negative equity of GEL8,452,609. As stated in Note 2, these circumstances or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group'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 Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the consolidated 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 Group to express an opinion on the consolidated 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

24 September 2019

LENDO GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(In Georgian Lari)

	Notes	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	6	8,022,417	1,000,556
Loans granted	7	31,896,233	50,433,335
Property and equipment	8	2,019	489,827
Intangible assets		13,443	40,208
Other assets	9	130,944	1,077,596
Tax asset		260,933	433,198
Deferred tax asset	10	452,491	310,007
Total assets		**40,778,480**	**53,784,727**
OWNER'S EQUITY AND LIABILITIES			
Liabilities			
Borrowings	11	41,790,379	73,189,853
Other liabilities	12	7,440,710	4,358,718
Total liabilities		**49,231,089**	**77,548,571**
Equity			
Charter capital	13	16,239,968	263,043
Accumulated loss		(24,692,577)	(24,026,887)
Total equity		**(8,452,609)**	**(23,763,844)**
Total owner's equity and liabilities		**40,778,480**	**53,784,727**

The consolidated financial statements for the year ended 31 December 2018 were approved on behalf of the management on 24 September 2019 by:

Chief Executive Officer ____________________ Giorgi Ramazashvili

Financial Manager ____________________ Giga Grigolia

LENDO GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(In Georgian Lari)

	Note	2018	2017
Interest income	14	48,625,320	35,150,080
Interest expense	14	(11,564,226)	(7,351,049)
Net interest income before impairment		**37,061,094**	**27,799,031**
Loan impairment	7	(39,178,641)	(24,150,121)
Net interest income/(expense)		**(2,117,547)**	**3,648,910**
Other income, net	15	5,204,926	3,008,587
Gain/(loss) on disposal of impaired loans	16	2,933,052	(1,163,548)
General administrative and commercial expenses	17	(9,468,644)	(10,164,305)
Goodwill impairment charge	18	(3,023,067)	-
Foreign exchange loss, net		(92,617)	(6,835,530)
Loss before income tax		**(6,563,897)**	**(11,505,886)**
Income tax benefit/(expense)	10	129,905	(124,628)
Total comprehensive loss		**(6,433,992)**	**(28,630,349)**

The notes on pages 10-35 form an integral part of these consolidated financial statements

	Charter capital	Accumulated loss	Total
At 31 December 2016	**-**	**(12,396,373)**	**(12,396,373)**
Increase of the charter capital by:			
Cash contribution	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)**
Change in accounting policy – IFRS 9	**-**	5,768,302	**5,768,302**
1 January 2018 as restated	**263,043**	**(18,258,585)**	**(17,995,542)**
Increase of the charter capital by:			
Cash contribution	244,095	-	**244,095**
Converted borrowings	15,732,830	-	**15,732,830**
Total comprehensive loss for the year	-	(6,433,992)	**(6,433,992)**
At 31 December 2018	**16,239,968**	**(24,692,577)**	**(8,452,609)**

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss before income tax		**(6,563,897)**	**(11,505,886)**
Adjustments for:			
Loan impairment	7	39,178,641	24,150,121
Net change in interest accruals		(5,863,602)	5,338,067
Depreciation and amortisation	17	416,816	628,200
Goodwill impairment charge	18	3,023,067	-
Net gain from disposed property, equipment and intangibles		(179,533)	-
Net gain on foreign exchange operations		92,617	6,835,530
Cash flows from operating activities before changes in operating assets and liabilities		**30,104,109**	**25,446,032**
(Increase)/decrease in operating assets:			
Loans granted		(2,341,154)	(44,238,295)
Other assets		469,360	(522,499)
Tax asset		133,363	(525,418)
Increase in operating liabilities:			
Other liabilities		2,679,566	3,580,835
Cash inflow/(outflow) from operating activities		**31,045,244**	**(16,259,345)**
Interest paid		(2,280,386)	(6,884,807)
Income tax paid		(12,579)	(1,081,259)
Net cash inflow/(outflow) from operating activities		**28,752,279**	**(24,225,411)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(232,374)	(316,760)
Purchase of intangible assets		(2,102)	(31,753)
Net effect from purchase of entity under common control		56,769	-
Net cash outflow from investing activities		**(177,707)**	**(348,513)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in borrowings		(22,223,179)	22,857,955
Proceeds from increase of the charter capital		244,095	263,043
Net cash inflow/(outflow) from financing activities		**(21,979,084)**	**23,120,998**
Net increase/(decrease) in cash and cash equivalents		**6,595,488**	**(1,452,926)**
Cash and cash equivalents at the beginning of the year		**1,000,556**	**2,116,492**
Effect of exchange rate fluctuations on the cash and cash equivalents held in foreign currencies		426,373	336,990
Cash and cash equivalents at the end of the year		**8,022,417**	**1,000,556**

The notes on pages 10-35 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

A) GROUP

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2018 for MFO LENDO LLC (the "Parent") and its subsidiary (together referred to as the "Group" or "LENDO GROUP"). The subsidiary named TIO LLC was purchased at the end of 2018. Additional information is disclosed in Note 18.

The Parent is a Limited Liability Company which was established on 8 December 2015 and started operations from the beginning of 2016. It was registered at tax department office in Tbilisi, Georgia with the registration number 404504844.

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

As the Groups's principal business activity Group offers offline credits to its customers through its vast network of branches, with maturity from 30 to 720 days. The main advantages of the Group are the fast pace, simplicity and flexibility.

The owner of the Group is a legal entity Dindin Holdings LTD (100%). The Group had no ultimate controlling party as at 31 December 2018 and 2017.

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

The Group's legal address is 7 Tsotne Dadiani street, Tbilisi, Georgia.

B) CHANGES IN GEORGIAN LEGISLATION

According to the decision of the President of Georgia, from 1 September 2018 after granting loan to customer effective interest rate between the parties should not exceed 50% during the year (instead of 100% as it was stated previously).

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards as issued by the International Accounting Standards Board (IASB) and Interpretations (collectively IFRSs).

The Group maintains its records and prepares consolidated financial statements in Georgian Lari (GEL). Amounts in the consolidated financial statements are presented without rounding, unless otherwise stated. The reporting period for the Group is the calendar year from January 1 to December 31.

The preparation of consolidated 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 Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the consolidated 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 Group incurred a net loss of GEL6,433,992 during the year ended 31 December 2018 and, as of that date, the Group had a negative equity of GEL8,452,609. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group'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 Group. Detailed information related to charter capital increase is disclosed in Note 23.

CHANGES IN ACCOUNTING POLICIES

a) New standards, interpretations and amendments effective from 1 January 2018

New standards impacting the Group that will be adopted in the annual financial statements for the year ended 31 December 2018, and which have given rise to changes in the Group's accounting policies are:

- IFRS 9 Financial Instruments (IFRS 9); and
- IFRS 15 Revenue from Contracts with Customers (IFRS 15)

The Group adopted IFRS 9 and IFRS 15 with a transition date of 1 January 2018. The Group has chosen not to restate comparatives on adoption of IFRS 9 and IFRS 15, therefore changes are not reflected in the restated prior year financial statements. Rather, these changes have been processed at the date of initial application (i.e. 1 January 2018) and recognised in the opening equity balances.

The Group has not made any adjustments for adopting IFRS 15, as new standard has no significant impact on the opening equity balances, while adoption differences for IFRS 9 brings fundamental changes to the accounting for financial assets. Details are disclosed in Note 3 and Note 7.

b) New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these is:

- IFRS 16 Leases (mandatorily effective for periods beginning on or after 1 January 2019)

The Group has progressed its projects dealing with the implementation of this key new accounting standard and is able to provide the following information regarding its likely impact:

IFRS 16 Leases

Adoption of IFRS 16 will result in the Group recognising right-of-use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the Group does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment.

The Board has decided it will apply the modified retrospective adoption method in IFRS 16, and, therefore, will only recognise leases on balance sheet as at 1 January 2019. In addition, it has decided to measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date. However, further work still needs to be carried out to determine whether and when extension and termination options are likely to be exercised, which will result in the actual liability recognised being higher than this.

Instead of recognising an operating expense for its operating lease payments, the Group will instead recognise interest on its lease liabilities and amortisation on its right-of-use assets.

The Group is currently assessing the possible impact of the new standard on its financial statements.

Other

The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in accounting policies and adjustments to the amounts previously recognized in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and are disclosed in Note 7.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. Accounting policies under IAS 39 relating to 2017 financial year can be found in the previous year Financial Statements.

The adoption of IFRS 9 has resulted in Changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

IFRS 9 replaces the 'incurred loss' (CL) model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

INITIAL RECOGNITION OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the Group's financial position when the Group becomes a party to the contractual provisions of the instrument.

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

If the transaction price differs from fair value at initial recognition, the Group accounts for such difference as follows:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL ASSETS

Classification and subsequent measurement

On initial recognition, a financial asset is classified into one of the following measurement categories: amortised cost; fair value through other comprehensive income (FVOCI); or fair value through profit or loss (FVTPL).

FINANCIAL ASSETS AT AMORTISED COST

Financial asset at amortised cost is the most relevant measurement category to the Organization. The Organization measures financial assets at amortised cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

A financial asset is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

The Group's all financial assets are measured at amortised cost, except derivative financial assets.

BUSINESS MODEL ASSESSMENT

There are three business models available under IFRS 9:

- Hold to collect: It is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest form the counterparty.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change or to hold the assets for liquidity purposes.
- Other: all those models that do not meet the 'hold to collect' or 'hold to collect and sell' qualifying criteria.

The assessment of business model requires judgment based on facts and circumstances at the date of the assessment. The business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios per instrument type and is based on observable factors.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group has considered quantitative factors and qualitative factors such as how the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel; the risks that affect the performance of the business model and, in particular, the way those risks are managed; and how managers of the business are compensated.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL, because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

SOLELY PAYMENTS OF PRINCIPAL AND INTEREST (SPPI)

If a financial asset is held in either to a Hold to Collect or a Hold to Collect and Sell business model, then assessment to determine whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding at initial recognition is required to determine the classification. The SPPI test is performed on an individual instrument basis.

Contractual cash flows, that represent solely payments of principal and Interest on the principal amount outstanding, are consistent with basic lending arrangement. Interest is consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks (e.g. liquidity risk) and costs (e.g. administrative costs) associated with holding the financial asset for a particular period of time, and a profit margin that is consistent with a basic lending arrangement.

In assessing whether the contractual cash flows are SPPI, the Group considers whether the contractual terms of the financial asset contain a term that could change the timing or amount of contractual cash flows arising over the life of the instrument which could affect whether the instrument is considered to meet the SPPI test.

If the SPPI test is failed, such financial assets are measured at FVTPL with interest earned recognised in other interest income.

DERECOGNITION OF FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statement of financial position) when:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS

Changes to the impairment estimation

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairment by replacing IAS 39's incurred loss approach with forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record ECL on all of its debt financial assets at amortised cost or FVOCI. The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

From 1 January 2018 the Group recorded the allowance for expected credit loss for all debt instruments that are measured at amortised cost.

The determination of impairment losses and allowance moves from an incurred credit loss model whereby credit losses are recognised when a defined loss event occurs under IAS 39, to an expected credit loss model under IFRS 9, where provisions are taken upon initial recognition of the financial instruments. Under IFRS 9, the Group first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

Collectively assessesed loans are grouped on the basis of shared credit risk characteristics, collateral type and industry.

Three stage approach

IFRS 9 introduces a three stage approach to impairment for Financial Instruments that are performing at the date of origination or purchase. This approach is summarised as follows:

Stage 1: The Group recognizes a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition. For those financial assets with a remaining maturity of less than 12 months, a PD is used that corresponds to the remaining maturity.

Stage 2: The Group recognizes a credit loss allowance at an amount equal to lifetime expected credit losses for those Financial Instruments which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default that represents the probability of default occurring over the remaining lifetime of the Financial Instrument. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1. Financial Instruments in stage 2 are not yet deemed to be credit-impaired.

Stage 3: If the Financial Instrument is credit-impaired, it is then moved to stage 3. The Group recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a Probability of Default (PD) of 100 % for those Financial Instruments that are credit-impaired.

INTEREST INCOME RECOGNITION

For Financial Instruments in Stage 1 and Stage 2, the Group calculates interest income by applying the Effective Interest Rate (EIR) to the gross carrying amount. Interest income for financial assets in Stage 3 is calculated by applying the EIR to the amortised cost (i.e. the gross carrying amount less credit loss allowance). For Financial Instruments classified as purchased or originated credit-impaired only, interest income is calculated by applying a credit adjusted EIR to the amortised cost of these purchased or originated credit-impaired assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Definition of default

The Group recognizes default in the following cases:

- Arrears including restructured loans >90 days
- Decease of a client
- Force majeure, when a client becomes insolvent due to external factors beyond the control

The definition of default is in line with relevant regulations taking into account the 90 days past due cap presumption IFRS 9.

The loans for which the Group recognizes default are credit-impaired loans.

Significant increase in credit risk

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

The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and
- There is no unwarranted volatility in loss allowance from transfers between 12-months PD (probability of default) and lifetime PD.

Forward-looking information

Under IFRS 9, the allowance for credit losses is based on reasonable and supportable forward looking information obtainable without undue cost or effort, which takes into consideration past events, current conditions and forecasts of future economic conditions.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data.

Probability of default (PD)

PD estimates are estimates at a certain date, which are calculated based on statistical rating models.

If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

PDs are calculated using data of portfolio historical movement within 90 days period. Using movement data matrix table is created (3 months movement). Afterwards the data is multiplied by itself to get 6 months, 9 months and 12 months movement, where at the end final PD rates for respective average loan life time is calculated. Final PD rate is estimated as an average for prior 6 months and weighted by each month's portfolio size for each loan group.

Exposure at default (EAD)

Exposure of default (EAD): The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial asset. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals discounted at the EIR.

Loss given default (LGD)

LGD is defined as the likely loss in case of a counterparty default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD model considers cash recoveries from clients during 12 months after default. LGD is calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

FINANCIAL LIABILITIES

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. On 1 January 2018 (the date of initial application of IFRS 9), the Group has classified all financial as liabilities within "Other financial liabilities" category. Other financial liabilities include the following items: borrowings and other short-term monetary liabilities.

Other financial liabilities are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERECOGNITION OF FINANCIAL LIABILITIES

The Group derecognises financial liabilities when, and only when, the Group'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 derecognition 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.

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.

FAIR VALUE MEASUREMENT

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:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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.

Derivative Financial instruments measured at fair value by the level 2 in the fair value hierarchy are presented in Notes 9 and 12.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Group'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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Group 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 Group 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 Group.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Group operates ('the functional currency'). Financial statements are presented in Georgian Lari (GEL), which is the Group's functional and presentation currency.

Monetary assets and liabilities are translated into the Group'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 Group'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 2018 and 2017:

	USD / GEL	EUR / GEL
Exchange rate as at 31 December 2018	2.6766	3.0701
Exchange rate as at 31 December 2017	2.5922	3.1044

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 Group's financial statements are reported in the financial statements. Post-balance sheet events that do not affect the financial position of the Group at the balance sheet date are disclosed in the notes to the financial statements when material.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group 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.

MEASUREMENT OF EXPECTED CREDIT LOSSES

The following are key estimations that the management have used in the process of applying the Group's accounting policies and that have the most significant effect on the loss allowances for expected credit losses:

- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

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 Group recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Group's belief that its tax return positions are supportable, the Group believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. As a result the Group minimizes the risks related to this fact. The Group 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 RECLASSIFICATIONS

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 for the year ended 31 December 2017 is as follows:

	As classified	Reclassification	As reclassified
Statement of comprehensive income			
Other income	3,142,097	(133,510)	**3,008,587**
General administrative and commercial expenses	(10,297,815)	133,510	**(10,164,305)**

6. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash on hand	-	216,323
Cash on current accounts in banks in Georgian Lari	5,904,580	441,730
Cash on current accounts in banks in other currencies	63,231	35,296
Cash in transit*	2,054,606	307,207
Total cash and cash equivalents	**8,022,417**	**1,000,556**

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

Cash and cash equivalents distribution by currency is disclosed in Note 20.

7. LOANS GRANTED

Loans granted as at 31 December 2018 can be presented as follows:

	Loans to customers	Other loans	Total loans granted
Originated loans	49,735,772	157,917	**49,893,689**
Accrued interest	2,729,622	-	**2,729,622**
Gross loans granted	**52,465,394**	**157,917**	**52,623,311**
Less: allowance for impairment losses	(20,727,078)	-	**(20,727,078)**
Net loans granted	**31,738,316**	**157,917**	**31,896,233**

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

	Loans to customers	Other loans	Total loans granted
Originated loans	72,446,353	760,577	**73,206,930**
Accrued interest	3,134,240	25,086	**3,159,326**
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**

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

	2018	2017
Balance at the beginning of the year	**(25,932,921)**	**(13,250,555)**
IFRS 9 adjustment on retained earnings	5,768,302	-
As at 1 January 2018	**(20,164,619)**	**(13,250,555)**
Net charge for the year	(39,178,641)	(24,150,121)
Provisions related to purchased portfolio	(1,381,414)	(1,115,048)
Write-offs during the year	39,997,596	12,582,803
Balance at the end of the year	**(20,727,078)**	**(25,932,921)**

7. LOANS GRANTED (CONTINUED)

The following table provides information on the credit quality of the loan portfolio as at 31 December 2018:

Credit quality of loans to customers	Gross loans to customers	Impairment allowance	Balance at the end of the year
Not overdue	37,551,159	(8,073,349)	**29,477,810**
Less than 90 days overdue*	8,728,493	(6,847,553)	**1,880,940**
More than 90 days overdue	6,185,742	(5,806,176)	**379,566**
Total as at 31 December 2018	**52,465,394**	**(20,727,078)**	**31,738,316**

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**

*Group also includes 90 days overdue loans.

The measurement category and the carrying amount of loans granted in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39 carrying amount at 31 December 2017	Remeasurements	IFRS 9 carrying amount at 1 January 2018
Opening balance under IAS 39	50,433,335	-	-
Remeasurement: ECL allowance	-	5,768,302	-
Opening balance under IFRS 9	-	-	56,201,637
Total loans to customers measured at amortised cost	**50,433,335**	**5,768,302**	**56,201,637**

8. PROPERTY AND EQUIPMENT

Historical cost	Computers and other technical equipment	Furniture and fixtures	Leasehold improvements	Vehicles	Total
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**
Additions	50,641	18,972	164,780	-	**234,393**
Disposals	(507,339)	(437,023)	(523,901)	(27,063)	**(1,495,326)**
At 31 December 2018	**2,019**	**-**	**-**	**-**	**2,019**
Accumulated depreciation					
At 31 December 2016	**(87,897)**	**(54,179)**	**(45,952)**	**(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)**
Depreciation charge	(51,895)	(204,063)	(123,632)	(9,650)	**(389,240)**
Accumulated depreciation of disposals	254,172	527,854	355,925	24,414	**1,162,365**
At 31 December 2018	**-**	**-**	**-**	**-**	**-**
Net book value					
At 31 December 2017	**256,440**	**94,260**	**126,828**	**12,299**	**489,827**
At 31 December 2018	**2,019**	**-**	**-**	**-**	**2,019**

On 1 September 2019 The Group sold owned property and intangibles to BRS LLC which provides several services. Additional information is disclosed in Note 17.

9. OTHER ASSETS

	31 December 2018	31 December 2017
Financial other assets		
Receivables arising from selling loan portfolio	110,000	986,304
	110,000	**986,304**
Non-financial other assets		
Prepayments	20,944	91,292
Total other assets	**130,944**	**1,077,596**

10. TAXATION

Temporary differences at a rate of 15% due to:	At 31 December 2016	Credited (charged) to the Income Statement	At 31 December 2017	Credited (charged) to the Income Statement	At 31 December 2018
Loans granted	**1,987,583**	1,902,355	**3,889,938**	(780,876)	**3,109,062**
Property and equipment	**(40,828)**	63,326	**22,498**	(22,498)	**-**
Borrowings	**127,057**	69,936	**196,993**	(69,891)	**127,102**
Other liabilities	**71,262**	19,254	**90,516**	1,015,749	**1,106,265**
Tax loss carried forward	**-**	-	**-**	6,183,333	**6,183,333**
Deferred tax asset	**2,145,074**	**2,054,871**	**4,199,945**	**6,325,817**	**10,525,762**
Unrecognised Temporary differences					
Loans granted	**(1,987,583)**	(1,902,355)	**(3,889,938)**	780,876	**(3,109,062)**
Other liabilities	**-**	-	**-**	(780,876)	**(780,876)**
Tax loss carried forward	**-**	-	**-**	(6,183,333)	**(6,183,333)**
Net deferred tax asset	**157,491**	**152,516**	**310,007**	**142,484**	**452,491**

Income tax benefit/(expense) comprises the following:

	2018	2017
Current income tax	(12,579)	(277,144)
Effect of temporary differences	142,484	152,516
Income tax benefit/(expense)	**129,905**	**(124,628)**

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

	2018	2017
Loss before income tax	**(6,563,897)**	**(11,505,886)**
Applicable tax rate	15%	15%
Theoretical Income tax benefit	**984,585**	**1,725,883**
Effect of unrecognised tax asset	(6,183,333)	(1,902,355)
Effect of permanent differences	5,328,653	51,844
Income tax benefit/(expense)	**129,905**	**(124,628)**

11. BORROWINGS

				31 December 2018		31 December 2017	
	Currency	Interest rate	Maturity	Originated borrowings	Accrued interest	Originated borrowings	Accrued interest
Peer-to-peer lending platform*	EUR			36,655,473	299,923	45,409,007	379,245
Peer-to-peer lending platform*	GEL			1,081,763	16,535	3,135,688	29,245
Dindin Holdings LTD	EUR	12.5%	31-Dec-19	1,772,067	491,687	-	-
Lutea Holdings Limited	EUR	12.5%	28-Feb-19	951,102	-	21,531,522	886,446
Sia RTO Invest	EUR	12.2%	31-Dec-19	482,629	39,200	-	-
JSC KB Investments	EUR	12%	31-Dec-18	-	-	1,800,350	18,350
Total borrowings				**40,943,034**	**847,345**	**71,876,567**	**1,313,286**

11. BORROWINGS (CONTINUED)

* Additional information is provided in Note 12.

Changes in borrowings arising from financing activities, including both changes arising from cash flows and non-cash changes can be presented as follows:

	2018	2017
At the beginning of the year	**73,189,853**	**43,413,782**
Cash flows	(21,717,982)	15,973,148
Non-cash flows:		
Borrowings converted to charter capital (Note 13)	(15,732,830)	-
Interest accruing in period	11,564,226	7,351,049
Effects of foreign exchange	(309,882)	6,451,874
Offset*	(5,203,006)	
At the end of the year	**41,790,379**	**73,189,853**

*According to agreement signed on 1 October 2018 borrowings received from Lutea Holdings Limited was offset with loans granted to LLC Finko Invest with total amount of GEL5,203,006.

12. OTHER LIABILITIES

	31 December 2018	31 December 2017
Transit account*	6,998,579	3,412,711
Payables for received services	340,007	812,727
Vacation payable	36,518	117,857
Other	65,606	15,423
Total other liabilities	**7,440,710**	**4,358,718**

*To finance its business the Group 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 Group), 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 Group 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 Group 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 2017 and 2018 the Group's transit account on peer-to-peer platform showed negative balance of GEL3,412,711 and GEL6,998,579, respectively.

Payables to peer-to-peer lending platform was significantly increased as at 31 December 2018. Main reason for change was portfolio selling to third parties. On 14 December 2018 the Group signed agreement with International Charity Foundation "Cartu". Based on contract terms the Group sold portfolio of GEL41,379,224 (loan principal - GEL34,510,794 and accrued interest - GEL6,868,430) with total amount of GEL4,747,396. Major part of sold loans were financed on peer-to-peer lending platform, so the Group had to repay attributable liabilities. The most part of the abovementioned liability is payable at the beginning of 2019 year.

13. CHARTER CAPITAL

On 30 July 2018 sole shareholder of the Group contributed GEL244,095 (EUR85,000) by cash in charter capital. Later, on 11 December 2018 charter capital was increased again by making non-cash contribution (loan conversion) with amount of GEL15,732,830.

14. NET INTEREST INCOME

Interest income is arising from:	**2018**	**2017**
Loans to customers	48,397,201	35,013,291
Loans to legal entities	203,740	121,382
Placements with banks	24,379	15,407
Total interest income	**48,625,320**	**35,150,080**
Interest expense is arising from:		
Borrowings from related parties	(2,301,220)	(2,319,141)
Other borrowings	(9,263,006)	(5,031,908)
Total interest expense	**(11,564,226)**	**(7,351,049)**
Net interest income before impairment charges	**37,061,094**	**27,799,031**

15. OTHER INCOME

	2018	**2017**
Penalties and late fees	4,218,780	2,950,784
Early repayment fee	474,516	-
Gain from disposal of fixed assets and intangibles	179,533	-
Other, net	332,097	57,803
Other income, net	**5,204,926**	**3,008,587**

16. GAIN/(LOSS) ON DISPOSAL OF IMPAIRED LOANS

	2018	**2017**
Selling price	4,914,121	1,029,281
Total selling price	**4,914,121**	**1,029,281**
Gross amount of the loans disposed	(41,978,665)	(14,775,632)
Total provision attributable to the loans sold	39,997,596	12,582,803
Net value of disposed loans	**(1,981,069)**	**(2,192,829)**
Gain/(loss) from disposal of impaired loans	**2,933,052**	**(1,163,548)**

In 2018 and 2017 the Group sold its impaired portfolios to third parties. In 2017 The average selling price was defined as 6.5% of portfolio's gross total value. In 2018 major selling transactions occurred at year end. Additional information is disclosed in Note 12.

17. GENERAL ADMINISTRATIVE AND COMMERCIAL EXPENSES

	2018	2017
Personnel costs	(2,083,713)	(2,478,761)
Service fee*	(1,987,793)	-
Application inspection and debt collection	(1,330,145)	(1,393,884)
Rent and utilities	(806,738)	(1,303,140)
Other financing fees**	(794,354)	(1,168,485)
Marketing costs	(705,127)	(1,318,612)
IT expenses	(693,741)	(693,369)
Depreciation and amortisation	(416,816)	(628,200)
Professional services***	(167,207)	(228,249)
Communication	(109,777)	(168,536)
Bank fee	(100,325)	(186,963)
Other	(272,908)	(596,106)
Total general administrative and commercial expenses	**(9,468,644)**	**(10,164,305)**

*Based on contract term signed on 30 August 2018 BRS LLC provides following service to the Company: marketing, customer service, financial, debt collection, IT service, branch service.

**Other financing fees is charge for intermediary service received from peer-to-peer platform. Additional information is disclosed in Note 12.

***Professional services include audit fees with amount of GEL17,742 (excluding VAT) and GEL15,290 (excluding VAT) for the years ended 31 December 2018 and 2017, respectively.

18. PURCHASE OF ENTITY UNDER COMMON CONTROL

On 19 December 2018 Parent purchased 100% equity interest of Subsidiary from RTO Invest LLC (entity under common control) with total amount of GEL1,000. From purchase transaction assets and liabilities owned by Subsidiary was consolidated based on their carrying amount, because Parent and Subsidiary represent entities under common control. At the time of transfer assets owned by Subsidiary amounted GEL70,045 including cash and cash equivalents with total amount of GEL57,769. Carrying amount of purchased liabilities at transfer date amounted GEL3,094,112 and accumulated loss equalled GEL3,024,067.

At acquisition date estimated Goodwill amounted GEL3,023,067. During this year after monitoring goodwill impairment, management decided to fully write it down as per their judgment economic benefit derived from owned asset were no longer expected. Abovementioned is based on ceasing Subsidiary's operations and stopping issuing loans.

19. COMMITMENTS AND CONTINGENCIES

LITIGATION

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

Following the Group's customers' failure to meet loan repayment obligations the Group 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 Group recognises provision for impairment for such loans, as disclosed in Note 7.

20. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

As a financial institution, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group'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 Group'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 Group'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 Group's competitiveness and flexibility. Further details regarding these policies are set out below. Through its operations, the Group 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 Group 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 Group uses various methods to identify and manage them effectively.

The Group 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 Group 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 2018	31 December 2017
Cash and cash equivalents (excluding cash on hand)	8,022,417	784,233
Loans granted	31,896,233	50,433,335
Other assets	110,000	986,304
Total credit risk exposure	**40,028,650**	**52,203,872**

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

20. 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 Group 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 Group.

Liquidity of Financial assets and liabilities as at 31 December 2018 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	11,779,517	29,322,952	687,910	**41,790,379**
Other liabilities	7,440,710	-	-	**7,440,710**
Total financial liabilities	**19,220,227**	**29,322,952**	**687,910**	**49,231,089**

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**

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 Group’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 Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group’s exposure to foreign currency exchange rate risk as at 31 December 2018 is presented in the tables below:

Financial assets	GEL	EUR	USD
Cash and cash equivalents	7,959,990	11,351	51,076
Loans granted	31,738,316	157,917	-
Other assets	110,000	-	-
Total financial assets	**39,808,306**	**169,268**	**51,076**
Financial liabilities			
Borrowings	1,098,298	40,692,081	-
Other liabilities	695,025	6,745,685	-
Total financial liabilities	**1,793,323**	**47,437,766**	**-**
Open balance sheet position	**38,014,983**	**(47,268,498)**	**51,076**

20. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

The Group'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)**

The following table details the Group'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 2018 and 2017 can be presented as follows:

	2018		2017	
Sensitivity of the fluctuation of the market exchange rates	**(GEL / EUR)**	**(GEL / USD)**	**(GEL / EUR)**	**(GEL / USD)**
20% increase	(9,453,700)	10,215	(14,375,331)	(24,117)
20% decrease	9,453,700	(10,215)	14,375,331	24,117

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

21. MANAGEMENT OF CAPITAL

The Group's objectives when maintaining capital are:

- To safeguard the Group'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 Group sets the amount of capital it requires in proportion to risk. The Group 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 Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

22. 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 Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives then significant influence over the Group; and that have joint control over the Group;

b) Members of key management personnel of the Group 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 Group and other related parties are disclosed below.

Related party balances and transactions as and for the year ended 31 December 2018:

Financial statement caption	Parent	EUCC*	Key management personnel
Statement of financial position			
Borrowings	2,263,754	951,102	-
Statement of comprehensive income			
Interest expense	(8,761)	(2,292,459)	-
General administrative and commercial expenses	-	-	(188,480)

22. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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 and commercial expenses	(989,246)		(188,480)

*Entity Under Common Control.

23. EVENTS AFTER THE REPORTING PERIOD

CHANGES IN GEORGIAN LEGISLATION

According to the Order #281/04 Of the President of the National Bank of Georgia new regulations came into force from 1 January 2019. Due to the new regulations the Group is not permitted to grant loans without analysing the solvency of customer. The purpose of new regulation is to ensure stable and sustainable operation of the financial system of Georgia and to encourage healthy lending.

PAYABLES TO PEER-TO-PEER LENDING PLATFORM

As mentioned in Note 12 the Group fully repaid liability at the beginning of 2019 year.

AMALGAMATION PROCESS

Based on sole shareholder decision made on 21 January 2019 Parent merged with Subsidiary. Reorganization process was finished on 11 March 2019.

CHANGE IN SHAREHOLDER AND CHARTER CAPITAL

- On 28 February 2019 Parent contributed GEL405,000 in charter capital of Subsidiary.

- According to agreement terms signed 3 May 2019 Dindin Holdings ltd, sole shareholder of the Parent, sold 100% of the equity interest to Varks AM Universal Credit Organization CJSC.

- From 30 July 2019 to 12 August 2019 sole shareholder (Varks UCO CJSC) increased charter capital of Parent with cash contribution with total amount of EUR1,800,000.

TAX AUDIT

On 7 June 2018 according to the issued order by Legal entity of public law - Revenue service – tax audit was carried in Parent. On 13 March 2019 issued order by Revenue service stated that Parent was fined with total amount of GEL1,469,656, which included: principal amount GEL896,348 and penalty GEL573,308. Management disagrees with abovementioned decision and based on tax agreement with Revenue service considers that the penalty will be fully forgiven and the principal amount will be decreased to GEL120,000. Revenue service has not issued final decision until Financial statement approval date.