**GEORGIAN CENTRAL SECURITIES DEPOSITORY JSC**

**FINANCIAL STATEMENTS AND**

**INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**TRANSLATED FROM ORIGINAL GEORGIAN**

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

Management is responsible for the preparation of the financial statements that present fairly the financial position of Georgian Central Securities Depository JSC (hereinafter - the "Company") at 31 December 2018 and the results of its operations, cash flows, and changes in equity for the period then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31 December 2018 were approved on behalf of the management on 28 March 2019 by:

| | | |
|---|---|---|
| Gaioz Sanadze | General Director | ___________________________ |
| Nino Khurdiani | Financial Director | ___________________________ |

**INDEPENDENT AUDITOR'S REPORT**

**TO THE MANAGEMENT AND SHAREHOLDERS OF GEORGIAN CENTRAL SECURITES DEPOSITORY JSC**

***Qualified Opinion***

We have audited the accompanying financial statements of Georgian Central Securities Depository JSC (hereinafter the "Company"), which comprise the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (hereinafter - "financial statements").

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

***Basis for Qualified Opinion***

In 2003 intangible assets and property, plant and equipment were contributed into the company's equity. The assets were recognized at estimated value, which comprised GEL 85,000. We were unable to obtain reasonable assurance in order to confirm the equity increase by the mentioned amount, therefore our opinion at December 31, 2018 financial statements is modified due the possible effect of this matter on current year and corresponding figures.

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

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

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

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.

**28 March 2019**

**RSM Georgia**

**Managing partner: Giorgi Kvinikadze**

## STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

| | Note | 2018<br>**Gel** | 2017<br>**Gel** |
|---|---|---|---|
| Fee and commission income | 3 | 84,740 | 78,890 |
| Other operating income | 3 | 12,000 | 12,030 |
| **Total operating Income** | | **96,740** | **90,920** |
| Salary expenses | | (285,437) | (153,029) |
| Rent expenses | | (18,575) | (18,168) |
| Consulting fees | | (7,031) | (19,605) |
| Depreciation and amortization expense | 8,9 | (2,972) | (2,664) |
| Representative Expenses | | (2,354) | (150) |
| Other operating Expenses | 4 | (22,954) | (13,511) |
| Financial assets impairment reserve (expense)/recovery | 7 | (1,922) | - |
| Finance Income | 5 | 53,464 | 36,298 |
| Net foreign gain/(loss) | 6 | 17,389 | (45,872) |
| **Loss Before Tax** | | **(173,652)** | **(125,781)** |
| Profit Tax Expense | | - | - |
| **Loss For the Year** | | **(173,652)** | **(125,781)** |
| **Other Comprehensive Income** | | | |
| Other Comprehensive Income for the year | | - | - |
| **Total Comprehensive Income for the year** | | **(173,652)** | **(125,781)** |
| **Erning Per Share** | | | |
| Basic | 15 | **(0.0043)** | **(0.0031)** |

| | | |
|---|---|---|
| Gaioz Sanadze | General Director | ______________________ |
| Nino Khurdiani | Financial Director | ______________________ |

**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018**

| *Assets* | Note | **31.12.2018** **Gel** | **31.12.2017** **Gel** |
|---|---|---|---|
| **Non-Current Assets** | | | |
| Property and equipment | 8 | 4,416 | 5,619 |
| Intangible assets | 9 | 6,244 | - |
| Held to maturity financial asset | 10 | 705,207 | 690,775 |
| Prepayments for purchase of intangible asset | 11 | 287,929 | 287,929 |
| **Total non-current assets** | | **1,003,796** | **984,323** |
| **Current assets** | | | |
| Income Tax asset | | 7,656 | 4,897 |
| Trade and other receviables | 12 | 18,324 | 13,368 |
| Cash and cash equivalents | 13 | 61,790 | 269,266 |
| **Total current assets** | | **87,770** | **287,531** |
| **Total assets** | | **1,091,566** | **1,271,854** |
| **Equity and Liabilities** | | | |
| **Equity** | | | |
| Share Capital | 14 | 405,699 | 405,699 |
| Share premium | 14 | 809,501 | 809,501 |
| Retained earnings | | (126,024) | 54,536 |
| **Total Equity** | | **1,089,176** | **1,269,736** |
| **Non-current liabilities** | | - | - |
| **Total Non-current liabilities** | | - | - |
| **Current Liabilities** | | | |
| Trade and other liabilities | | 2,390 | 2,118 |
| **Total current Liabilities** | | **2,390** | **2,118** |
| **Total liabilities** | | **2,390** | **2,118** |
| **Total Equity and Liabilities** | | **1,091,566** | **1,271,854** |

Gaioz Sanadze General Director ______________________

Nino Khurdiani Financial Director ______________________

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019**

| Note | Share capital **Gel** | Share Premium **Gel** | Retained earning **Gel** | Total Equity **Gel** |
|---|---|---|---|---|
| **At 31 December 2016** | **405,699** | **809,501** | **180,317** | **1,395,517** |
| Loss for the year | - | - | (125,781) | **(125,781)** |
| Other comprehensive income for the year | - | - | - | - |
| Comprehensive income for the year | - | - | - | - |
| **At 31 December 2017** | **405,699** | **809,501** | **54,536** | **1,269,736** |
| **Effect of changes in accounting policy (Note 2)** | - | - | **(6,908)** | **(6,908)** |
| **At 1 January 2018** | **405,699** | **809,501** | **47,628** | **1,262,828** |
| Loss for the year | | | (173,652) | **(173,652)** |
| Other comprehensive income for the year | - | - | - | - |
| Comprehensive income for the year | - | - | - | - |
| **At 31 December 2018** | **405,699** | **809,501** | **(126,024)** | **1,089,176** |

Gaioz Sanadze General Director ______________________

Nino Khurdiani Financial Director ______________________

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018**

| | Note | 2018<br>Gel | 2017<br>Gel |
|---|---|---|---|
| **Cash Flow from operating Activities** | | | |
| Cash received from customers | | 95,438 | 88,142 |
| Cash outflow to suppliers and salary payments | | (344,224) | (204,407) |
| **Net cash generated by (used in) operating activities** | | **(248,786)** | **(116,265)** |
| Cash received from interest | 5 | 53,831 | 19,386 |
| **Net cash generated by (used in) operating activities** | | **(194,955)** | **(96,879)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Net increase held to maturity financial assets | 10 | - | (673,972) |
| Prepayments for purchase of intangible asset | 9 | (6,350) | (287,929) |
| Acquisition of Intengibe assets | | - | - |
| Acquisition of property plant and equipment | 8 | (1,663) | (852) |
| **Net cash used in investing activities** | | **(8,013)** | **(962,753)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | - | - |
| **Cash and cash Equivalents** | | | |
| At 1 January | 13 | 269,266 | 1,374,771 |
| Net increase in the year | | (202,968) | (1,059,633) |
| Effect of exchange rate changes on cash and cash equivalents held | 13 | (4,508) | (45,872) |
| At 31 December | | **61,790** | **269,266** |

| | | |
|---|---|---|
| Gaioz Sanadze | General Director | ______________________ |
| Nino Khurdiani | Financial Director | ______________________ |

# NOTES

## 1 GENERAL INFORMATION

Georgian Central Securities Depository JSC (hereinafter - "Company"), was established on 1 November 1999 according to the legislation of Georgia.

The Company's main activity is holding member's securities in nominee ownership, provision of clearing and settlement operations with these securities, and provision of other types of services permitted by Georgian legislation.

The founder of the company is the Georgian Stock Exchange JSC (hereinafter – "Founder").

In December of 2016 the Company issued 304,499 new shares with a par value of GEL 1 per share and a selling price of GEL 3.62 per share. All shares were sold to Tbilisi Stock exchange JSC, for a total of GEL 1,103,200. As a result, the Company's share capital and share premium have increased by GEL 304,499 and GEL 798,701 respectively.

As of December 31, 2018 and 2017, "Georgian Stock Exchange" JSC owns 24.64% shares of the company and "Tbilisi Stock Exchange" JSC owns 75,06% of the company and other shareholders owns 0,3% shares. Meanwhile, "Georgian stock exchange" JSC owns 35.22% of shares in the „Tbilisi Stock Exchange"JSC, and accordingly indirectly owns 26.4% of the company's shares.

**Main Shareholders**

As at 31 December 2018 and 2017, the company's share ownership was as follows:

Georgian Stock Exchange JSC owns - 24.64%;

Tbilisi Stock Exchange" JSC - 75.06%;

Others – 0.3%

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (A) BASIS OF PREPARATION

These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS"), being standards and interpretations issued by the International Accounting Standards Board ("IASB"), in force at 31 December 2018.

The financial statements comprise a statement of profit and loss and other comprehensive income, a statement of financial position, a statement of changes in equity, a statement of cash flows, and explanatory notes.

The Company presents the profit and loss items using the classification by nature of expenses. The Company believes this method provides more useful information to the readers of the financial statements as it better reflects the way operations are managed from a business point of view. The format of the statement of financial position is based on a current / non-current distinction.

**Depository activities**

The Company provides depository services to its customers, which include transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the depository activities are not included in the Company's Financial Statements. The Company accepts the operational risk on these activities, but

Company's customers bear the credit and market risks associated with such operations. Revenue from provision of depository services is recognised at the time when services are provided.

**Measurement bases**
The financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the Company uses market observable data to the extent possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Company using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (eg. by use of the market comparable approach that reflects recent transaction prices for similar items, discounted cash flow analysis, or option pricing models refined to reflect the issuer's specific circumstances). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.
Fair values are categorised into different levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- 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 (ie as prices) or indirectly (ie derived from prices).
- 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).

Transfers between levels of the fair value hierarchy are recognised by the Company at the end of the reporting period during which the change occurred.

**New or amended Accounting Standards and Interpretation adopted**

The following Accounting Standards and Interpretations are most relevant to the company:

*IFRS 9 Financial Instruments:*

The company has adopted IFRS 9 from 1 January 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

*IFRS 15 Revenue from Contracts with Customers*:

The company has adopted IFRS 15 from 1 January 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

**Effect of transition**

IFRS 9 and IFRS 15 were adopted using the modified retrospective approach and as such comparatives have not been restated. The impact of adoption as at 1 January 2018 was as follows:

| **Area of Financial Statements** | **1 January 2018** |
|---|---|
| Allowance for impairment of financial assets (expenses)/retention (IFRS 9) | 6,908 |
| Income (IFRS 15) | - |
| **Impact on opening retained profits as at 1 January 2018** | **6,908** |

The detail reconsilation for financial instuments (IFRS 9) is presented bellow:

| **Amortised Cost** | **IAS 39 carrying amount as at 31 December 2017 GEL** | **Reclassifications GEL** | **Remeasurment GEL** | **IFRS 9 carrying amount as at 1 January 2018 GEL** |
|---|---|---|---|---|
| Trade receivables | 13,368 | - | - | 13,368 |
| Investments Held to maturity | 690,775 | - | (6,908) | 683,867 |
| **Total** | **704,143** | - | **(6,908)** | **697,235** |

The measurement category has not been changed due to new IFRS, the financial assets presented above table was measured at amortised cost and still remains with the same category, however the differences is coused in measurement of allowances, as far as new impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance, rather than allowance based on knowm actual events as it was used by previous IAS 39.

Comparision of financial statements areas for the year ended 31 December 2018 by new and old standards.

| | **New Standards** | **Old Standards** | **Difference** |
|---|---|---|---|
| Fee and commission income | 96,740 | 96,740 | - |
| Allowance for impairment of financial assets expenses/retention | (1,922) | (1,105) | (817) |
| Income and other income | 53,464 | 53,464 | - |
| Net foreign gain/(loss) | 17,388 | 17,388 | - |
| General and administrative expenses | (339,323) | (339,323) | - |
| **Loss before Tax** | **(173,653)** | **(172,836)** | **(817)** |
| **Loss for the year** | **(173,653)** | **(172,836)** | **(817)** |
| Trade and other receivables | 18,324 | 18,997 | (673) |
| Investments held for maturity | 705,207 | 712,259 | (7,052) |
| Other assets | 368,035 | 368,035 | - |
| **Total assets** | **1,091,566** | **1,099,291** | **(7,725)** |
| Liabilities | 2,390 | 2,390 | - |
| **Total liabilities** | **2,390** | **2,390** | **-** |
| **Net assets** | **1,089,176** | **1,096,901** | **(7,725)** |

**New and amended standards in issue but not yet effective**

The Company has not applied the following new or amended standards that have been issued by the IASB but are not yet effective for the financial year beginning 1 January 2018.

The Management anticipate that the new standards and amendments will be adopted in the Company's financial statements when they become effective. The Company has assessed, where practicable, the potential effect of all these new standards and amendments that will be effective in future periods.

IFRS 16 Leases (issued in January 2016) - The Standard, effective for annual periods beginning on or after 1 January 2019 (earlier application permitted only if IFRS 15 also applied), replaces IAS 17 and its Interpretations. The biggest change introduced is that almost all leases will be brought onto lessees' balance sheets under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. The Directors anticipate that IFRS 16 will be adopted in the Company's financial statements when it becomes mandatory, However, as the Management is still in the process of assessing the full impact of the application of IFRS 16 on the Company's financial statements, it is not practicable to provide a reasonable financial estimate of the effect until the Management complete the detailed review.

IFRS 17 Insurance Contracts (issued in May 2017) - The Standard that replaces IFRS 4, effective for annual periods beginning on or after 1 January 2021 (earlier application permitted only if IFRS 9 and IFRS 15 also applied), requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of consistent, principle-based accounting for insurance contracts, giving a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. As the Company has neither issued insurance contracts nor held reinsurance contracts, the Standard is not expected to have an effect on its financial statements.

**(B) Recognition of Revenue and Expendutures**

*(a) Revenue is recognized on accrual basis.*

Revenue from rendering services is recognised when the amount of revenue can be measured reliably; it is probable that future economic benefits will flow to the entity; the stage of completion of the transaction at the end of the reporting period can be measured reliably; and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of discounts and value added tax collected on behalf of the government of Georgia. For each contract the Company takes the following steps: Identifies the controcat existence, identifies the performance obligations, determines the transaction price, allocates the transaction price to each performance obligation and recognizes the revenenu only when the all performance obligation is fulfilled in a manner of transferring all promised good or service.

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

*(b) Interest income*

Interest income is recognized on accrual basis according to effective interest rate.

**(C) Property, Plant and equipment**

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives as follows:

| | |
|---|---|
| Office equipment | 20% straight-line method |
| Leasehold Improvement | 20% straight-line method |

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

On disposal, the difference between the net disposal proceeds and the carrying amount of the item sold is recognised in profit or loss, and included in ‘other income’ or other operating expenses’.

**Leased assets**

Leases are classified as finance leases if substantially all the risks and rewards of ownership are transferred to the Company. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the lease term.

Incentives to take out operating leases are credited to profit or loss, as a reduction of rental expense, on a straight-line basis over the lease term.

**(D) Intangible Assets**

On initial recognition, intangible assets acquired separately are measured at cost. The cost of a separately acquired intangible asset comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use.

After initial recognition, intangible assets are carried at cost less any accumulated amortization and impairment losses. The estimated useful life and amortization method are revised at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis.

**Amortization**

For intangible assets with finite useful lives, amortisation is calculated so as to write off the cost of the asset, less its estimated residual value, over its useful economic life of ten years using straight line method.

Intangible assets with an indefinite useful life are not amortized, but subject to review for impairment as described below.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset - measured as the difference between the net disposal proceeds and the carrying amount of the asset - are recognised in profit or loss when the asset is derecognised.

**(E) IMPAIRMENT OF NON-FINANCIAL ASSETS**

**Impairment of property, plant and equipment and of intangible assets with finite useful lives**

The carrying amounts of such assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the statement of profit or loss to its estimated recoverable amount. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs.

Value in use is the present value of the estimated future cash flows of the asset / unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset / unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

**(F) Financial Instruments**

**Initial recognition and measurement**

The Company recognises a financial asset or a financial liability in the statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument. On initial recognition, the Company recognises all financial assets and financial liabilities at fair value. The fair value of a financial asset / liability on initial recognition is normally represented by the transaction price. The transaction price for financial assets / liabilities other than those classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition / issue of the financial instrument. Transaction costs incurred on acquisition of a financial asset and issue of a financial liability classified at fair value through profit or loss are expensed immediately.

**Subsequent measurement of financial assets**

Subsequent measurement of financial assets depends on their classification on initial recognition. The Company classifies financial assets in one of the following four categories:

A financial assets are measured at amortised cost if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (b) 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.

A financial assets are measured at fair value through other comprehensive income if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (b) 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.

All other financial assets are classified and measured at at fair value through orfit or loss unless the Compnay makes an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

**Impairment of financial assets**

The Company recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the company's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

In addition, for trade receivables that are assessed not to be impaired individually, the Company assesses them collectively for impairment, based on the Company's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

The schedule for assessing imapriment allowance for trade receivables is presented bellow:

| Days past due | Less than 30 days | 31 – 60 days | 61-90 days | 91-180 days | More than 180 days |
|---|---|---|---|---|---|
| Persentage of allowance | 2% | 5% | 25% | 50% | 100% |

For financial assets measured at amortized cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortized cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

**Derecognition of financial assets**

Irrespective of the legal form of the transactions, financial assets are derecognised when they pass the "substance over form" based derecognition test prescribed by IFRS 9. That test comprises two different types of evaluations which are applied strictly in sequence:

- Evaluation of the transfer of risks and rewards of ownership
- Evaluation of the transfer of control

Whether the assets are recognised / derecognised in full or recognised to the extent of the Company's continuing involvement depends on accurate analysis which is performed on a specific transaction basis.

**Subsequent measurement of financial liabilities**

Subsequent measurement of financial liabilities depends on how they have been categorised on initial recognition. The Company classifies financial liabilities in one of the following two categories:

Liabilities at fair value through profit or loss (FVTPL) Liabilities are classified in this category when they are held principally for the purpose of selling or repurchasing in the near term (trading liabilities) or are derivatives (except for a derivative that is a designated and effective hedging instrument) or meet the conditions for designation in this category. All changes in fair value relating to liabilities at fair value through profit or loss are

charged to profit or loss as they arise.

For the years that ended on 31 December 2015 and 2014, the Company did not classify any financial liabilities as held for trading or designated as at fair value through profit or loss.

Other financial liabilities All liabilities which have not been classified in the previous category fall into this residual category. These liabilities are carried at amortized cost using the effective interest method. Typically, trade and other payables and borrowings are classified in this category. Items classified within trade and other payables are not usually remeasured, as the obligation is known with a high degree of certainty and settlement is short-term.

**Derecognition of financial liabilities**

A financial liability is removed from the Company's statement of financial position only when the liability is discharged, cancelled or expired (ie extinguished). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

**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.

**(H) Transactions in foreign currencies**

The functional currency of the Company is Georgian Lari ("GEL"). Transactions in foreign currencies are initially recorded in the functional currency using the official exchange rates of the National Bank of Georgia at the date of the transaction. Foreign currency monetary items at the reporting date are translated using the closing rate. All exchange differences arising on settlement are recognised in profit or loss.

The applicable exchange rates used were:

| | Official currency rate of the National Bank of Georgia | |
|---|---|---|
| | USD | EUR |
| Exchange rate as at 31 December 2017 | 2.59 | 3.10 |
| Exchange rate as at 31 December 2018 | 2.68 | 3.07 |
| Average rate for the year ended 31 December 2017 | 2.51 | 2.83 |
| Average rate for the year ended 31 December 2018 | 2.53 | 2.99 |

**(J) Income tax**

In accordance with the effective Georgian Tax Code, corporate income tax is not levied on profit earned but on the profit distributed as dividends. The amount of tax payable on a dividend distribution is calculated as 15/85 of the amount of the net distribution. The income tax payable on dividends is recognised as an expense in the period in which the dividends are declared, irrespective of the period in which the dividends are ultimately distributed. Because of the specific nature of the taxation system, companies registered in Georgia do not acquire deferred tax assets or incur deferred tax liabilities on temporary differences between the carrying amounts and tax bases of their assets and liabilities.

**(K) Provisions and contingencies**

Provisions are recognised when the Company has an obligation at the reporting date as a result of a past event; it is probable that the Company will be required to transfer economic benefits in settlement; and the amount of the obligation can be estimated reliably. Provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks to a specific obligation. The increase in the provision due to the passage of time is recognised as interest expense. Provisions are not recognised for future operating losses. Contingent assets and contingent liabilities are not recognised.

**(L) Share capital**

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of the par value are classified as 'share premium' in equity.

The cost of an entity's own equity instruments that it has reacquired are classified as “treasury shares” and is shown as a deduction from equity in the statement of financial position. When treasury shares are sold, reissued or written off they are credited to equity statement. As a result, no gain or loss on treasury shares is included in the statement of comprehensive income.

Dividends are recognised as a liability in the year in which they are declared.

## 3 FEE AND COMMISSION AND OTHER OPERATING INCOME

| | 2018 | 2017 |
|---|---|---|
| | Gel | Gel |
| Commission income | 41,660 | 27,533 |
| Income from custodian service | 28,840 | 38,772 |
| Custodian and brokerage membership fee | 14,240 | 12,585 |
| Other operating income | 12,000 | 12,030 |
| **TOTAL FEE AND COMMISSION INCOME** | **96,740** | **90,920** |

## 4 OTHER OPERATING EXPENSES

| | 2018 | 2017 |
|---|---|---|
| | Gel | Gel |
| Business trip expenses | 4,990 | 2,507 |
| Utility expenses | 4,560 | 3,804 |
| Software support | 3,800 | - |
| Staff training | 3,214 | - |
| Insurance expnese | 3,038 | 1,218 |
| Cleaning and service expenses | 1,166 | 1,105 |
| Bank fee | 586 | 1,185 |
| Tax expenses | - | 2,628 |
| Other expenses | 1,602 | 1,064 |
| **TOTAL OTHER OPERATING EXPENSES** | **22,954** | **13,511** |

## 5 FINANCE INCOME

| | 2018 | 2017 |
|---|---|---|
| | Gel | Gel |
| Financial income from held to maturity financial assets | 45,325 | 16,752 |
| Interest received from bank deposits | 8,139 | 19,546 |
| **TOTAL FINANCE INCOME** | **53,464** | **36,298** |

## 6 NET FOREIGN GAIN/(LOSS)

| | **Cash and cash equivalents** | **Trade receivables** | **Trade Payables** | **Investments held for maturity** | **Total** |
|---|---|---|---|---|---|
| | Gel | Gel | Gel | Gel | Gel |
| Foreign exchange gain | 6,629 | - | - | 83,070 | 89,699 |
| Foreign exchange loss | (11,137) | (20) | (9) | (61,145) | (72,311) |
| **Net foreign exchange gain/loss for 2018 year** | **(4,508)** | **(20)** | **(9)** | **21,925** | **17,388** |

| | **Cash and cash equivalents** | **Trade receivables** | **Trade Payables** | **Investments held for maturity** | **Total** |
|---|---|---|---|---|---|
| | Gel | Gel | Gel | Gel | Gel |
| Foreign exchange gain | 43,291 | - | - | 86,806 | 130,098 |
| Foreign exchange loss | (141,444) | (5) | - | (34,521) | (175,970) |
| **Net foreign exchange gain/loss for 2017 year** | **(98,152)** | **(5)** | **-** | **52,285** | **(45,872)** |

## 7 ALLOWANCE FOR IMPAIREMENT OF FINANCIAL ASSETS EXPENSES/RETENTION

| | **Allowance for Investments held for maturity** | **Allowance for trade receivables** | **Total** |
|---|---|---|---|
| | Gel | Gel | Gel |
| **At 31 December 2016** | **-** | **(925)** | **(925)** |
| Recovery of impaired assets | - | - | - |
| Reserve expense for the year | - | - | - |
| **At 31 December 2017** | **-** | **(925)** | **(925)** |
| **Impact of the changes in accounting policy (Note 2)** | **(6,908)** | **-** | **(6,908)** |
| | **(6,908)** | **(925)** | **(7,833)** |
| Write-off for the year | **-** | **925** | 925 |
| Recovery of impaired assets | **-** | **-** | - |
| Reserve expense for the year | (217) | (1,705) | (1,922) |
| **At 31 December 2018** | **(7,125)** | **(1,705)** | **(8,830)** |

## 8 PROPERTY,PLANT AND EQUIPMENT

| COST | Office equipment | Leasehold improvement | TOTAL |
|---|---|---|---|
| **AT 1 JANUARY 2017** | **29,143** | **9,625** | **38,768** |
| Acquisitions | 852 | - | 852 |
| Disposals | - | - | - |
| **AT 31 DECEMBER 2017** | **29,995** | **9,625** | **39,620** |
| Acquisitions | 1,663 | - | 1,663 |
| Disposals | - | - | - |
| **AT 31 DECEMBER 2018** | **31,658** | **9,625** | **41,283** |
| **DEPRECIATION AND IMPAIRMENT** | | | |
| **AT 1 JANUARY 2017** | **(27,487)** | **(3,850)** | **(31,337)** |
| Depreciation for the year | (739) | (1,925) | (2,664) |
| Disposals | | | |
| **AT 31 DECEMBER 2017** | **(28,226)** | **(5,775)** | **(28,673)** |
| Depreciation for the year | (941) | (1,925) | (2,866) |
| Disposals | | | |
| **AT 31 DECEMBER 2018** | **(29,167)** | **(7,700)** | **(25,807)** |
| **NET CARRYING AMOUNT** | | | |
| **AT 1 JANUARY 2017** | 1,656 | 5,775 | 7,431 |
| **AT 31 DECEMBER 2017** | 1,769 | 3,850 | 5,619 |
| **AT 31 DECEMBER 2018** | **2,491** | **1,925** | **4,416** |

The company has fully depreciated assets with historical cost of 29,992 Gel. The company makes use of those fully depreciated assets in operational activities.

## 9 Intengible assets

| | Computer sofwares | TOTAL |
|---|---|---|
| | Gel | Gel |
| **COST** | | |
| **AT 1 JANUARY 2017** | **20,826** | **20,826** |
| Acquisitions | - | - |
| Disposals | - | - |
| **AT 31 DECEMBER 2017** | **20,826** | **20,826** |
| Acquisitions | 6,350 | 6,350 |
| Disposals | - | - |
| **AT 31 DECEMBER 2018** | **27,176** | **27,176** |
| | | |
| **DEPRECIATION AND IMPAIRMENT** | | |
| **AT 1 JANUARY 2017** | **20,826** | **20,826** |
| Depreciation for the year | - | - |
| Disposals | | |
| **AT 31 DECEMBER 2017** | **(20,826)** | **(20,826)** |
| Depreciation for the year | (106) | (106) |
| Disposals | | |
| **AT 31 DECEMBER 2018** | **(20,932)** | **(20,932)** |
| **NET CARRYING AMOUNT** | | |
| **AT 1 JANUARY 2017** | **-** | **-** |
| **AT 31 DECEMBER 2017** | **-** | **-** |
| **AT 31 DECEMBER 2018** | **6,244** | **6,244** |

The company has fully amortized assets with historical cost of 20,826 Gel. The company makes use of those fully amortized intengible assets in operational activities.

## 10 HELD TO MATURITY FINANCIAL ASSET

Held to maturity financial asset includes following financial asset:

| | Currency | Amount in HC | Quantity | Maturity Date | Rate | **31.12.2018** | **31.12.2017** |
|---|---|---|---|---|---|---|---|
| Bonds of Georgian Leasing Company LLC | USD | 260,000 | 260 | 29-08-2020 | 7.00% | 712,331 | 690,775 |
| **Total before allowance for Investments held for maturity** | | | | | | **712,331** | **690,775** |
| Allowance for Investments held for maturity (see. Note 7) | | | | | | (7,125) | - |
| **NET HELD TO MATURITY FINANCIAL ASSET** | | | | | | **705,207** | **690,775** |

Interest income from held to maturity financial asset find in the note 5. There is no significant difference between coupon and effective interest rate of the held to maturity financial asset.

There is no material difference between the fair value and the carrying amount of held to maturity financial assets.

## 11 PREPAYMENTS FOR PURCHASE OF INTANGIBLE ASSET

| | **31.12.2018** | **31.12.2017** |
|---|---|---|
| | Gel | Gel |
| Prepayment for purchase of intangible asset | 247,428 | 247,428 |
| Non-refundable tax costs for purchase of intangible assets | 40,501 | 40,501 |
| **TOTAL** | **287,929** | **287,929** |

The prepayment for purchase of intangible asset includes payments to Montran Corporation (with place of business at 60E. 42ND street, Suite 464 New York.). The agreement between the parties was settled at 31 January of 2017. Under the contract MONTRAN CORPORTAION took responsibility of implementation and technical support of new software and related linkages, to expend its activity in clearing and equity settlement services.

| | **2018** | **2017** |
|---|---|---|

| **Opening Balance at 1 January** | **287,929** | **-** |
|---|---|---|
| Payments during the year | - | 287,929 |
| Amounts deducted during the year | - | - |
| **Closing Balance at 31 December** | **287,929** | **287,929** |

In December 2018, the first phase of the project was completed and run the program in the pilot mode. The end of the project is scheduled to be held in early April, 2019.

## 12 TRADE AND OTHER RECEIVABLES

| | **31.12.2018** | **31.12.2017** |
|---|---|---|
| | Gel | Gel |
| Account receivables | 16,384 | 11,793 |
| Prepayments | 3,645 | 2,500 |
| Minus:The allowance for doubtful accounts (See: Note 7) | (1,705) | (925) |
| **TOTAL TRADE AND OTHER RECEIVABLES** | **18,324** | **13,368** |

There is no material difference between the fair value of receivables and their carrying amount.

| **13 TOTAL CASH AND CASH EQUIVALENTS** | **31.12.2018** | **31.12.2017** |
|---|---|---|
| | ლარი | ლარი |
| Cash at current bank account | 9,381 | 23,321 |
| Cash on hand | 37 | 36 |
| Short-Term Depositss | 52,371 | 245,909 |
| **Total cash and cash equivalents** | **61,790** | **269,266** |

The cash is distributed in various banks as deposits for the period less than one year, at interest rate 0.5-9.5%. The income from interest on deposits was GEL 8,139 (2017: 19, 546 GEL).

There is no material difference between the fair value and the carrying amount of cash and cash equivalents.

## 14 SHARE CAPITAL

During the year of 2018 the company has not change its capital structure.

In December of 2016, the Company issued 304,499 new shares with a par value of GEL 1 per share and a selling price of GEL 3.62 per share. As a result, the Company’s share capital and share premium have increased by GEL 304,499 and GEL 798,701 respectively.

## 15 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. The company owns only ordinary shares.

| | **2018** | **2017** |
|---|---|---|
| | Gel | Gel |
| Net income attributable to common stockholders | (173,652) | (125,781) |
| **PROFIT/(LOSS) FOR THE YEAR** | (173,652) | (125,781) |
| Weighted average number of shares | 405,699 | 405,699 |
| **BASIC** | **(0.0043)** | **(0.0031)** |

## 16 COMMITMENTS AND CONTINGENCIES

Contingencies regarding to operating lease

The company has signed an Operating Lease Agreement which expires on October 5, 2018, but if none of the parties express their wish to terminate the contract, the validity period of the contract shall be automatically extended for a period of one year.

Minimum lease payments are presented below:

| | **2018** | **2017** |
|---|---|---|
| | Gel | Gel |
| Less than 1 year | 16,060 | 15,553 |
| 1-5 year | - | - |
| **TOTAL:** | **16,060** | **15,553** |

**Taxation contingencies**

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## 17 INFORMATION ON FINANCIAL RISKS

In performing its operating, investing and financing activities, the Company is exposed to the following financial risks:

- Credit risk: the possibility that a debtor will not repay all or a portion of a loan or will not repay in a timely manner and therefore will cause a loss to the Company.
- Liquidity risk: the risk that the Company may not have, or may not be able to raise, cash funds when needed and therefore encounter difficulty in meeting obligations associated with financial liabilities.
- Market risk: the risk that the value of a financial instrument will fluctuate in terms of fair value or future cash flows as a result of a fluctuation in market prices. Basically, the company is exposed to two market risk components:
    - Interest rate risk
    - Currency risk

Management of the company manages risks by cooperation with operating units. Because of the simplicity of the company's operations, there is not a pre-set policy for managing risks.

The following table summarises the carrying amount of financial assets and financial liabilities recorded by category:

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Financial assets** | GEL | GEL |
| Cash and cash equivalents | 61,790 | 269,266 |
| Trade and other receivables | 14,679 | 10,868 |
| Investments held for maturity | 705,207 | 690,775 |
| **Total financial assets** | **781,676** | **970,909** |
| **Financial liabilities** | | |
| Trade and other payables | 2,390 | 2,118 |
| **Total financial liabilities** | **2,390** | **2,118** |

### Credit risk

The Company takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Company's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet.

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| | GEL | GEL |
| Cash and cash equivalents | 61,752 | 269,230 |
| Trade and other receivables | 14,679 | 10,868 |
| Investments held for maturity | 705,207 | 690,775 |
| **Total financial assets** | **781,638** | **970,873** |

As note 13. Defines, cash and cash equivalents consists of cash in bank accounts and short-term deposits.

**Expected credit loss measurement**

The Group uses a "three-stage" model for impairment based on changes in credit qulity since initial recognition sumurised bellow:

- A financial instrument that is not credit-impaired on initial recognition is classified in "stage 1" and has its credit risk continiusly monitored by the Group.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to "stage 2" but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, it is then moved to "stage 3".
- Financial instrument in stage 1 have thie ECL measured at an amount equal to the portion of lifetime ECL that result from default events possible within next 12 months. Instruments in stages 2 and 3 have their ECL measured based on expected credit losses on a lifetime basis.

The following diagram summarises the impairment approach of the group:

| Stage 1 | Stage 2 | Stage 3 |
|---|---|---|
| (Initial recognition) | (Significant increase in credit risk since initial recognition) | (Credit-impaired assets) |
| 12-moth expected credit loss | Liftime expected credit losses | Liftime expected credit losses |

The Groups all financial assets in this consolidated financial statements, other than trade receivables, are classified in stage 1 as at beginning and end of the 2018 year.

As for trade receivables the Group uses the simplified approach is based on days overdue. The company has five overdue ranges: less than 30 days, 31-60 days, 61-90 days, 91-180 days and more than 180 days. ECL percentage is based on company`s operating sector and previous experience. Expected credit loss table is presented below:

| Days Overdue | < 30 | 31-60 | 61-90 | 91-180 | >180 |
|---|---|---|---|---|---|
| ECL Percentage | 2% | 5% | 25% | 50% | 100% |

For investment held-to-maturity, expected credit loss (ECL) is based on credit risk change after initial recognition.

Loss allowances will be measured on either of the following bases: a) 12-month ECLs - If the credit risk on a financial instrument has not increased significantly since initial recognition b) lifetime ECLs - If the credit risk on that financial instrument has increased significantly since initial recognition.

Considering the fact, that credit risk is not increased significantly after initial recognition, the company used 12-month ECL for investment held-to-maturity.

**Liquidity risk - Financial liabilities maturity analysis**

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations arising from its financial obligations. It refers to the availability of sufficient funds to meet financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match.

Liquidiy risk as at 31 December 2018 can be presented as follows:

| | Weighted average effective interest rate | Up to 1 year | 1 year to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cahs qeuivalents | | 61,790 | - | - | 61,790 |
| Trade receivables | | 14,679 | - | - | 14,679 |
| Investment held to maturity | 7% | - | 705,207 | - | 705,207 |
| **Total financial assets** | | **76,469** | **705,207** | **-** | **781,676** |
| **Financial liabilities** | | | | | |
| Trade payables | | 2,390 | - | - | 2,390 |
| **Total financial liabilities** | | **2,390** | **-** | **-** | **2,390** |
| **Liquidity Gap** | | **74,079** | **705,207** | **-** | **779,286** |

Liquidiy risk as at 31 December 2017 can be presented as follows:

| | Weighted average effective interest rate | Up to 1 year | 1 year to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cahs qeuivalents | | 269,266 | - | - | 269,266 |
| Trade receivables | | 10,868 | - | - | 10,868 |
| Investment held to maturity | 7% | - | 690,775 | - | 690,775 |
| **Total financial assets** | | **280,134** | **690,775** | **-** | **970,909** |
| **Financial liabilities** | | | | | |
| Trade payables | | 2,118 | - | - | 2,118 |
| **Total financial liabilities** | | **2,118** | **-** | **-** | **2,118** |
| **Liquidity Gap** | | **278,016** | **690,775** | **-** | **968,791** |

**Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. However, changes in interest rates do not impact any component of the company's financial assets or liabilities. All borrowings and cash and cash equivalents have fixed interest rates and therefore management do not believe the Company is exposed to the interest rate risk from these financial assets and liabilities

The interest rate exposure is presented bellow:

| | 31.12.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| **In % P.A** | **GEL** | **USD** | **GEL** | **USD** |
| Cash and cash equivalents | 5.5-9.5% | 0.5-0.75% | 5.5-12% | 0.5-0.75% |
| Invetment held to maturity | - | 7% | - | 7% |

**Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a different currency from the Company's functional currency) and the Company's financial liabilities denominated in foreign currencies.
The Company does not hedge its exposure to currency risk.

*The following table analyses the breakdown of financial assets by currency:*

| | **Cash and cash equivalents** | **Investments held for maturity** | **TOTAL** |
|---|---|---|---|
| **As of 31 December 2018:** | GEL | GEL | GEL |
| USD | 3,501 | 705,207 | 708,709 |
| **TOTAL** | **3,501** | **705,207** | **708,709** |

| | **Cash and cash equivalents** | **Investments held for maturity** | **TOTAL** |
|---|---|---|---|
| **As of 31 December 2017:** | GEL | GEL | GEL |
| USD | 131,558 | 690,775 | 822,333 |
| **TOTAL** | **131,558** | **690,775** | **822,333** |

A hypothetical 10% increase / decrease in the exchange rate of the GEL against the US Dollar would decrese / increase 2018 profits after tax by GEL 71,597 (2017: 82,233 ).

## 18 RELATED PARTY TRANSACTIONS

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control of the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

The company is owned and controlled by Georgian Stock Exchange JSC and Tbilisi Stock Exchange JSC.

| | **2018** | **2017** |
|---|---|---|
| **Income** | Gel | Gel |
| Income from Parent company | 12,000 | 12,000 |
| Income received from Parent's subsidiaries | - | - |
| Income from other related parties | 122,170 | 33,995 |
| Cash received from issuing of shares | - | - |

| | **2018** | **2017** |
|---|---|---|
| **Expenses** | Gel | Gel |
| Major shareholders | - | - |
| Other related parties | 495 | 1,081 |

| Balances with related parties | 31.12.2018<br>Gel | 31.12.2017<br>Gel |
|---|---|---|
| Major shareholders | 1,000 | 1,000 |
| Other related parties | 12,802 | 4,386 |

| | 31.12.2018<br>Gel | 31.12.2017<br>Gel |
|---|---|---|
| Georgian Leasing Company LTD | 705,207 | 690,775 |

| Cash balances at bank | 31.12.2018<br>Gel | 31.12.2017<br>Gel |
|---|---|---|
| Cash at Bank of Georgia JSC | 352 | 68,089 |
| Cash at TBC Bank JSC | 3,591 | 122,357 |

The following table illustrates key management compensation during the period concerned:

| KEY MANAGEMENT COMPENSATION | 2018<br>Gel | 2017<br>Gel |
|---|---|---|
| Wages, salaries and short-term benefits | 125,835 | 83,407 |

## 19 EVENTS AFTER THE REPORTING PERIOD

Between the reporting period and approval date no significant events happened, which could be disclosed in this financial statement.