JSC MFO MICRO BUSINESS CAPITAL

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the year ended 31 December 2020

CONTENTS:

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of JSC MFO Micro Business Capital

Opinion

We have audited the financial statements of JSC MFO Micro Business Capital (the "Organisation"), which comprise the statement of financial position as at 31 December 2020, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organisation as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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 IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organisation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organisation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Organisation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, 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.

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

Ivane Zhuzhunashvili (Registration # SARAS-A-720718)

For and on behalf of BDO LLC

Tbilisi, Georgia

21 June 2021

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

(In thousands of Georgian Lari)

	Note	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	6	2,673	3,046
Loans to customers	7	66,858	58,219
Other assets	8	1,624	1,391
Deferred tax asset	9	356	194
Right-of-use assets	10	4,050	4,483
Intangible assets		237	262
Property and equipment	11	2,404	2,262
Total assets		**78,202**	**69,857**
Liabilities			
Subordinated borrowings and other borrowed funds	12	54,928	48,084
Lease liabilities	10	4,947	4,700
Other liabilities	13	765	374
Total liabilities		**60,640**	**53,158**
Equity			
Share capital	14	2,225	2,200
Share premium	14	996	900
Preference shares	14	7,347	7,347
Retained earnings		6,994	6,252
Total equity		**17,562**	**16,699**
Total liabilities and equity		**78,202**	**69,857**

The financial statements for the year ended 31 December 2020 were approved on behalf of the management on 21 June 2021 by:

General Director		Gia Petriashvili
Financial Director		Tatia Jajanashvili

The notes on pages 9-43 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

(In thousands of Georgian Lari)

	Note	2020	2019
Interest income	15	15,858	14,080
Interest expense	15	(6,290)	(4,971)
Net interest income		**9,568**	**9,109**
Fee and commission income		1,647	1,658
Net foreign exchange loss		(3,776)	(853)
Net gain from trading in foreign currency		1,955	480
Operating income		**9,394**	**10,394**
Impairment losses on debt financial assets	7	(748)	(554)
Personnel expenses		(4,238)	(4,187)
Depreciation and amortisation		(1,275)	(900)
Other operating expenses	16	(1,498)	(1,705)
Profit before income tax		**1,635**	**3,048**
Income tax expense	9	(152)	(528)
Total comprehensive income		**1,483**	**2,520**

The notes on pages 9-43 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

(In thousands of Georgian Lari)

	Share capital	Share premium	Preference shares	Retained earnings	Total
At 31 December 2018	**2,185**	**852**	**7,347**	**4,285**	**14,669**
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	15	48	-	-	**63**
	15	**48**	**-**	**-**	**63**
Total comprehensive income for the year					
Dividends				(553)	**(553)**
Profit for the year	-	-	-	2,520	**2,520**
	-	**-**	**-**	**1,967**	**1,967**
At 31 December 2019	**2,200**	**900**	**7,347**	**6,252**	**16,699**
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	25	96	-	-	**121**
	25	**96**	**-**	**-**	**121**
Total comprehensive income for the year					
Dividends	-	-	-	(741)	**(741)**
Profit for the year	-	-	-	1,483	**1,483**
	-	-	-	**742**	**742**
At 31 December 2020	**2,225**	**996**	**7,347**	**6,994**	**17,562**

The notes on pages 9-43 form an integral part of these financial statements.

(In thousands of Georgian Lari)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**1,635**	**3,048**
Adjustments for:		
Impairment losses on debt financial assets	748	554
Net change in interest accruals	(23)	(555)
Rent concessions	(100)	-
Modification loss of contractual cash flows of financial assets	790	-
Depreciation and amortisation	1,275	900
Bonus, audit and other fee accruals	74	294
Net gain from sale of repossessed property	(8)	(69)
Net foreign exchange loss	3,776	853
Written-off of property and equipment	5	13
Cash flows from operating activities before changes in operating assets and liabilities	**8,172**	**5,038**
Changes in operating assets and liabilities:		
Loans to customers	(9,302)	(9,151)
Other assets	(188)	(432)
Other liabilities	311	(358)
Net cash used in operating activities before income tax	**(1,007)**	**(4,903)**
Income tax paid	(370)	(543)
Cash flows used in operating activities	**(1,377)**	**(5,446)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(498)	(591)
Purchases of intangible assets	(69)	(99)
Cash flows used in investing activities	**(567)**	**(690)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts of other borrowed funds	94,288	63,464
Receipts of subordinated borrowings	-	844
Repayment of other borrowed funds	(91,803)	(56,016)
Proceeds from issuance of ordinary shares	121	63
Lease liabilities paid	(656)	(543)
Dividends paid	(741)	(553)
Cash flows from financing activities	**1,209**	**7,259**
Net increase/(decrease) in cash and cash equivalents	**(735)**	**1,123**
Cash and cash equivalents as at the beginning of the year	**3,046**	**1,771**
Effect of changes in exchange rates on cash and cash Equivalents	362	152
Cash and cash equivalents as at the end of the year	**2,673**	**3,046**

The notes on pages 9-43 form an integral part of these financial statements.

1. GENERAL INFORMATION

ORGANISATION

MFO Micro Business Capital (the "Organisation) was established in Georgia as Joint Stock Company on 6 December 2012. Its principal activities are credit operations, cash operations, and foreign exchange transactions. The Organisation's activities are regulated by the National Bank of Georgia (the NBG). The Organisation's registration number is 404967078.

The Organisation aims to provide customer-tailored and accessible financial services to micro and small businesses and farmers, increase availability of funds and loan products, maintain long-term and transparent relations with customers. The Organisation, as a socially responsible financial institution, aims to contribute to the sustainable economic growth of Georgia.

The Organisation's highest management body is the General Shareholders' Meeting. Organisation's activities are supervised by Supervisory Board, whose members are elected by General Shareholders' Meeting. Organisation's daily activities are carried out by Organisation's Board of Directors, who are elected by the Supervisory Board.

The Organisation is wholly owned by members of the Shareholder Group. There is no ultimate controlling party of the Organisation as at 31 December 2020 and 2019. Detailed information is disclosed in Note 14.

The Organisation has 14 branches.

The Organisation's head office is located at 68 Queen Ketevan Avenue, Tbilisi, Georgia.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

These 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 Organisation maintains its records and prepares financial statements in Georgian Lari (GEL), which is also the Organisation's presentation currency. Amounts in the financial statements are rounded in thousands, unless otherwise stated. The reporting period for the Organisation is the calendar year from January 1 to December 31.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying The Organisation's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 3. The principal accounting policies adopted in the preparation of the financial statements are set in the Note 20.

BASIS OF MEASUREMENT

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss are stated at fair value.

GOING CONCERN

In determining the appropriateness of the basis of preparation, the management of the Organisation has considered the impact of the COVID-19 pandemic on the position of the Organisation at 31 December 2020 and its operations in the future.

As of 31 December 2020, total assets exceeded total liabilities by GEL17,562 thousand. During the year 2020 and 2019 the Organisation had net income of GEL1,483 thousand and GEL2,520 thousand, respectively.

Considering the COVID-19 impact, the Organisation offered up to three months grace period to customers, which also had an impact on the Organisation's operations. Additionally, At the end of 2020 due to deterioration of COVID-19 situation in Georgia, the Government introduced a number of regulations including the targeted lockdown, which had impact on the tourism, transportation and HORECA sector, which is not a significant portion of the Organisation's portfolio.

2. BASIS OF PREPARATION (CONTINUED)

Despite the COVID-19 impact, the Organisation increased loan portfolio by GEL8,639 thousand during 2020. Also, the Organisation managed to receive additional funding from investors and reduced the risk of liquidity during the COVID-19 outbreak. The Organisation was in compliance with all covenants as at 31 December 2020.

Restrictions related to the COVID-19 have different impact on different business sectors. The management believes that Pandemic has not had impact on the Organisation's going concern despite its effect on operations, cash flows and financial position of the Organisation. These financial statements have been prepared on the assumption that the Organisation is a going concern and will continue its operations for the foreseeable future. The management and shareholder have the intention to further develop the business of the Organisation in Georgia. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Organisation's ability to continue as a going concern. The management believes that the going concern assumption is appropriate for the Organisation.

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

a) New standards, interpretations and amendments effective from 1 January 2020

There have been adopted some new standards and interpretations neither of which have material effect in the Organisation's financial statements for the year ended 31 December 2020:

- Definition of a Business (Amendments to IFRS 3);
- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39 and IFRS 7); and
- COVID-19-Related Rent Concessions (Amendments to IFRS 16); (Note 10)
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative - Definition of Material); and
- Revisions to the Conceptual Framework for Financial Reporting.

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 Organisation has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

The Organisation is currently assessing the impact of these new accounting standards and amendments. The Organisation does not believe that the amendments to IAS 1 will have a significant impact on the classification of its liabilities.

Other

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

MEASUREMENT OF EXPECTED CREDIT LOSSES

The following are key estimations that the management have used in the process of applying the Organisation'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.
- Establishing forward-looking scenarios: When measuring ECL the Organisation uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Impact of COVID-19 on ECL

The impact of COVID-19 resulted in the application of further judgement within number of judgements, assumptions and estimates that affect the allowance for ECL due to the limited recent experience of the economic and financial impacts of such an event. Given the unprecedented nature of the COVID-19 pandemic and the uncertainties associated with it, the Organisation reconsidered the existing accounting judgements and estimates and applied management overlays to the methodology.

The economic environment remains uncertain and future impairment charges may be subject to further volatility depending on the longevity of the COVID-19 pandemic and related containment and other measures.

In response to COVID-19 outbreak the Organisation came out with an initiative to grant one to three-month grace period to its borrowers in April, May and June 2020 to significantly reduce the requirement for customers to physically visit branches. Such event was not automatically considered as SICR event (i.e. trigger to transfer the exposure from Stage 1 to Stage 2) and the exposure was only transferred to Stage 2 where there was an observable evidence of financial difficulties of the borrower indicating that the level of risk has increased significantly since loan origination.

LEASE TERM, INCREMENTAL BORROWING RATE (IBR) AND LEASE PAYMENTS

The lease term is defined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (including the renewal option implied through customary business practices) if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised. Management applies judgement to determine the lease term when lease contracts include renewal options that are exercisable only by the Organisation. It considers all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Organisation reassesses the lease term if there is a significant event or a change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew, or to terminate the lease.

The management applies judgement to estimate the IBR. The management uses an observable information to determine the base rate and adjustments for the lessee specific factors and the asset factors (the adjustment for security).

In Georgia it is customary that lease renewal option is implied through customary business practices and not all renewal options are documented within the lease agreements. In such cases, the initial measurement of the lease liability assumes the payments for renewal periods equal to the contractual amount and will remain unchanged throughout the lease term.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

ASSESSMENT OF COLLATERAL VALUES

The management regularly reviews the market value of the collateral. Management uses best knowledge to updates the appraised values of collateral obtained at inception of the loan to the current values, taking into account the approximate changes in property values. The amount of collateral depends on the customer's credit risk.

TAXATION

The Organisation believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax results of these matters differ from the amounts in the existing accounting records, such differences will affect the tax expense in the period when such decision was made. The Organisation believes that it can justify its tax declarations and minimizes the risks related to this fact

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

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

GENERAL OBJECTIVES, POLICIES AND PROCESSES

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

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

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

CREDIT RISK

Credit risk is the risk of financial loss to the Organisation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Organisation has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications
- methodology for the credit assessment of borrowers
- methodology for the credit assessment of counterparties
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

(In thousands of Georgian Lari)

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

Loan credit applications are originated by the relevant credit officers and are then passed on to the credit committee members, according to credit policy. Credit Committee is responsible for the loan approval/rejection decision. Committee acts in line with the defined limits and standards, which are defined in credit policy and product specification. Analysis is based on a structured analysis, focusing on the customer's business and financial performance.

Credit officer is responsible for the accuracy, reliability and transparency of loan application, which includes information on client, detailed analysis of client's business and preliminary assessment of credit risks and etc. Based on certain criteria (clients' credit history, creditworthiness, financial position, business sustainability and etc) credit committee members review loan application.

The Organisation continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Organisation. Regular monitoring of loans allows the Organisation to mitigate credit risks. Collateral is another tool for credit risk mitigation.

Risk Management Department performs clients individual risk assessment as well as analysis of overall portfolio quality, credit concentration and market risks. Please see allowance for loans customers in Note 7.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of the possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	31 December 2020	31 December 2019
Cash and cash equivalents (excluding cash on hand)	1,275	1,079
Loans to customers	66,858	58,219
Other assets	96	337
	68,229	**59,635**

LIQUIDITY RISK

Liquidity risk is the risk that the Organisation will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/-or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The Organisation maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The liquidity management policy requires:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining liquidity and funding contingency plans

The following tables show the undiscounted cash flows on financial assets, liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liability.

(In thousands of Georgian Lari)

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

The maturity analysis for financial assets and liabilities as at 31 December 2020 is as follows:

Financial assets	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Cash and cash equivalents	2,673	-	-	-	**2,673**
Loans to customers	9,138	28,937	58,300	478	**96,853**
Other assets	30	66	-	-	**96**
	11,841	**29,003**	**58,300**	**478**	**99,622**
Financial liabilities					
Other borrowed funds	6,758	21,383	25,534	-	**53,675**
Subordinated borrowings	272	411	7,360	-	**8,043**
Lease liabilities	291	911	3,632	1,395	**6,229**
Other liabilities	204	80	-	-	**284**
	7,525	**22,785**	**36,526**	**1,395**	**68,231**
Net liquidity gap on recognised financial assets and liabilities	**4,316**	**6,218**	**21,774**	**(917)**	**31,391**

The maturity analysis for financial assets and liabilities as at 31 December 2019 is as follows:

Financial assets	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Cash and cash equivalents	3,046	-	-	-	**3,046**
Loans to customers	7,745	21,936	54,214	301	**84,196**
Other assets	65	272	-	-	**337**
	10,856	**22,208**	**54,214**	**301**	**87,579**
Financial liabilities					
Other borrowed funds	4,508	17,207	26,689	417	**48,821**
Subordinated borrowings	252	390	6,222	860	**7,724**
Lease liabilities	260	766	3,390	1,673	**6,089**
Other liabilities	116	203	-	-	**319**
	5,136	**18,566**	**36,301**	**2,950**	**62,953**
Net liquidity gap on recognised financial assets and liabilities	**5,720**	**3,642**	**17,913**	**(2,649)**	**24,626**

MARKET RISK

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

(In thousands of Georgian Lari)

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

- CURRENCY RISK

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

The Organisation's exposure to foreign currency exchange rate risk as at 31 December 2020 is presented in the tables below:

Financial assets	**GEL**	**USD**	**Other Currencies**
Cash and cash equivalents	866	1,029	778
Loans to customers	62,334	4,524	-
Other assets	30	66	-
	63,230	**5,619**	**778**
Financial liabilities			
Other borrowed funds	25,720	23,321	86
Subordinated borrowings	-	5,801	-
Lease liabilities	305	4,642	-
Other liabilities	228	56	-
	26,253	**33,820**	**86**
Open balance sheet position	**36,977**	**(28,201)**	**692**
The effect of derivatives held for risk management	**(33,224)**	**33,127**	**-**
Net open balance sheet position	**3,753**	**4,926**	**692**

The Organisation's exposure to foreign currency exchange rate risk as at 31 December 2019 is presented in the tables below:

Financial assets	**GEL**	**USD**	**Other Currencies**
Cash and cash equivalents	845	1,710	491
Loans to customers	52,749	5,470	-
Other assets	52	285	-
	53,646	**7,465**	**491**
Financial liabilities			
Other borrowed funds	21,706	21,203	95
Subordinated borrowings	-	5,080	-
Lease liabilities	267	4,433	-
Other liabilities	319	-	-
	22,292	**30,716**	**95**
Open balance sheet position	**31,354**	**(23,251)**	**396**
The effect of derivatives held for risk management	**(28,347)**	**28,323**	**-**
Net open balance sheet position	**3,007**	**5,072**	**396**

(In thousands of Georgian Lari)

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

The following table details the Organisation's sensitivity to a 20% increase and decrease in the foreign currency exchange rates against GEL and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the year for a 20% change in foreign currency rates. Impact on the statement of comprehensive income and equity based on financial instrument values as at 31 December 2020 and 2019 can be presented as follows:

	31 December 2020		31 December 2019	
	(GEL / USD)	(GEL / Other Currencies)	(GEL / USD)	(GEL / Other Currencies)
20% increase	985	138	1,014	79
20% decrease	(985)	(138)	(1,014)	(79)

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

- INTEREST RATE RISK

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

The table presents the aggregated amounts of the Organisation's interest-bearing financial assets and interest-bearing financial liabilities at carrying amounts as at 31 December 2020 and 2019:

	31 December 2020	31 December 2019
Total interest-bearing financial assets	68,133	59,298
Total interest-bearing financial liabilities	(59,875)	(52,784)
	8,258	**6,514**

MANAGEMENT OF CAPITAL

The Organisation's objectives when maintaining capital are:

- To safeguard the Organisation's ability to continue as a going concern, so that it can continue to operate sufficiently; and
- To comply with the capital requirements set by NBG and borrower.
- To provide an adequate return to shareholder.

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

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

The Organisation is also subject to minimum capital requirements established by covenants stated in loan agreements. See detailed information in Note 17.

(In thousands of Georgian Lari)

5. PRIOR PERIOD 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 2019 is as follows:

	As classified	Reclassification	As reclassified
Statement of financial position			
Tax liability	**19**	(19)	**-**
Other liabilities	**355**	19	**374**
Statement of comprehensive income			
General administrative expenses	**(2,605)**	2,605	**-**
Depreciation and amortisation	**-**	(900)	**(900)**
Other operating expenses	**-**	(1,705)	**(1,705)**

6. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Cash on hand	1,398	1,967
Cash at Bank	1,275	1,079
	2,673	**3,046**

Cash and cash equivalents distribution by currency is disclosed in Note 4.

7. LOANS TO CUSTOMERS

	31 December 2020	31 December 2019
Services	27,855	20,237
Trade	16,148	14,034
Consumption	13,692	14,871
Farming/agro-activities	5,762	4,520
Production/construction	3,006	2,383
Housing*	2,121	2,958
	68,584	**59,003**
Expected credit losses	(1,726)	(784)
Total loans to customers	**66,858**	**58,219**

*Housing loans are loans issued for the purpose of purchase, repair and to arrange real estate.

(In thousands of Georgian Lari)

7. LOANS TO CUSTOMERS (CONTINUED)

The following table provides information on the credit quality of loans to customers as at 31 December 2020:

Loans to customers	Stage 1	Stage 2	Stage 3	Total
Services				
Not overdue	25,733	561	-	**26,294**
Overdue less than 30 days	318	-	-	**318**
31 to 90 days overdue	-	600	-	**600**
91 to 180 days overdue	-	-	399	**399**
More than 180 days overdue	-	-	244	**244**
Total Services	**26,051**	**1,161**	**643**	**27,855**
Loss allowance	(262)	(123)	(279)	**(664)**
Carrying amount	**25,789**	**1,038**	**364**	**27,191**
Trade				
Not overdue	14,711	595	-	**15,306**
Overdue less than 30 days	204	2	-	**206**
31 to 90 days overdue	-	307	-	**307**
91 to 180 days overdue	-	-	158	**158**
More than 180 days overdue	-	-	171	**171**
Total Trade	**14,915**	**904**	**329**	**16,148**
Loss allowance	(141)	(65)	(135)	**(341)**
Carrying amount	**14,774**	**839**	**194**	**15,807**
Consumption				
Not overdue	12,383	589	-	**12,972**
Overdue less than 30 days	243	-	-	**243**
31 to 90 days overdue	-	148	-	**148**
91 to 180 days overdue	-	-	185	**185**
More than 180 days overdue	-	-	144	**144**
Total Consumption	**12,626**	**737**	**329**	**13,692**
Loss allowance	(194)	(55)	(175)	**(424)**
Carrying amount	**12,432**	**682**	**154**	**13,268**
Farming/agro-activities				
Not overdue	5,348	55	-	**5,403**
Overdue less than 30 days	40	-	-	**40**
31 to 90 days overdue	-	158	-	**158**
91 to 180 days overdue	-	-	38	**38**
More than 180 days overdue	-	-	123	**123**
Total Farming/agro-activities	**5,388**	**213**	**161**	**5,762**
Loss allowance	(61)	(32)	(73)	**(166)**
Carrying amount	**5,327**	**181**	**88**	**5,596**
Production/construction				
Not overdue	2,769	36	-	**2,805**
31 to 90 days overdue	-	44	-	**44**
91 to 180 days overdue	-	-	85	**85**
More than 180 days overdue	-	-	72	**72**
Total Production/construction	**2,769**	**80**	**157**	**3,006**
Loss allowance	(23)	(9)	(60)	**(92)**
Carrying amount	**2,746**	**71**	**97**	**2,914**
Housing				
Not overdue	1,781	260	-	**2,041**
Overdue less than 30 days	23	-	-	**23**
31 to 90 days overdue	-	8	-	**8**
91 to 180 days overdue	-	-	48	**48**
More than 180 days overdue	-	-	1	**1**
Total Housing	**1,804**	**268**	**49**	**2,121**
Loss allowance	(16)	(5)	(18)	**(39)**
Carrying amount	**1,788**	**263**	**31**	**2,082**

(In thousands of Georgian Lari)

7. LOANS TO CUSTOMERS (CONTINUED)

The following table provides information on the credit quality of loans to customers as at 31 December 2019:

Loans to customers	Stage 1	Stage 2	Stage 3	Total
Farming/agro-activities				
Not overdue	4,133	59	-	**4,192**
Overdue less than 30 days	102	-	-	**102**
31 to 90 days overdue	-	143	-	**143**
91 to 180 days overdue	-	-	83	**83**
Total Farming/agro-activities	**4,235**	**202**	**83**	**4,520**
Loss allowance	(39)	(25)	(34)	(98)
Carrying amount	**4,196**	**177**	**49**	**4,422**
Production/construction				
Not overdue	2,216	15	-	**2,231**
Overdue less than 30 days	105	-	-	**105**
91 to 180 days overdue	-	-	47	**47**
Total Production/construction	**2,321**	**15**	**47**	**2,383**
Loss allowance	(16)	-	(20)	**(36)**
Carrying amount	**2,305**	**15**	**27**	**2,347**
Services				
Not overdue	19,419	244	-	**19,663**
Overdue less than 30 days	234	2	-	**236**
31 to 90 days overdue	-	261	-	**261**
91 to 180 days overdue	-	-	77	**77**
Total Services	**19,653**	**507**	**77**	**20,237**
Loss allowance	(146)	(37)	(37)	**(220)**
Carrying amount	**19,507**	**470**	**40**	**20,017**
Trade				
Not overdue	13,425	154	-	**13,579**
Overdue less than 30 days	238	1	-	**239**
31 to 90 days overdue	-	141	-	**141**
91 to 180 days overdue	-	-	75	**75**
Total Trade	**13,663**	**296**	**75**	**14,034**
Loss allowance	(106)	(30)	(37)	**(173)**
Carrying amount	**13,557**	**266**	**38**	**13,861**
Consumption				
Not overdue	13,787	566	-	**14,353**
Overdue less than 30 days	326	15	-	**341**
31 to 90 days overdue	-	113	-	**113**
91 to 180 days overdue	-	-	64	**64**
Total Consumption	**14,113**	**694**	**64**	**14,871**
Loss allowance	(159)	(42)	(41)	**(242)**
Carrying amount	**13,954**	**652**	**23**	**14,629**
Housing				
Not overdue	2,715	203	-	**2,918**
Overdue less than 30 days	38	-	-	**38**
31 to 90 days overdue	-	2	-	**2**
Total Housing	**2,753**	**205**	**-**	**2,958**
Loss allowance	(13)	(2)	-	**(15)**
Carrying amount	**2,740**	**203**	**-**	**2,943**

(In thousands of Georgian Lari)

7. LOANS TO CUSTOMERS (CONTINUED)

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Organisation generally requests borrowers to provide it.

Loans to customers are generally collateralized by real estate and vehicles (few amounts are collateralized by precious metals).

The Organisation's policy is to issue loans collateralized with real estate with a loan-to-value ratio at the date of loan issuance of a maximum of 60%.

Loans collateralized by vehicles are secured by the underlying cars. The Organisation's policy is to issue loans collateralized by vehicles with a loan-to-value ratio at the date of loan issuance of a maximum of 80%.

Loans collateralized by precious metals are collateralized by underlying precious metals. The Organisation's policy is to issue loans collateralized by precious metals with a loan-to-value ratio at the date of loan issuance of a maximum of 90%. From 2016 year the Organisation does not grant loans collateralized by precious metals.

Following table provides information on the collateral, securing the loan portfolio, net of impairment:

At 31 December 2020	Real estate	Vehicles	Precious metals	No collateral	Total
Services	18,002	9,150	36	2	**27,190**
Trade	13,036	2,771	-	-	**15,807**
Consumption	6,963	6,207	95	4	**13,269**
Farming/agro-activities	3,716	1,880	-	-	**5,596**
Production/construction	2,453	460	-	-	**2,913**
Housing	1,993	90	-	-	**2,083**
	46,163	**20,558**	**131**	**6**	**66,858**

At 31 December 2019	Real estate	Vehicles	Precious metals	No collateral	Total
Services	14,241	5,729	47	-	**20,017**
Trade	10,763	3,089	-	11	**13,863**
Consumption	9,167	5,275	156	30	**14,628**
Farming/agro-activities	3,450	972	-	-	**4,422**
Housing	2,784	159	-	-	**2,943**
Production/construction	1,954	392	-	-	**2,346**
	42,359	**15,616**	**203**	**41**	**58,219**

The following table includes summary information for financial assets whose cash flows were modified during the period as of the Organisation's restructuring activities and their respective effect on the Organisation's financial position as at 31 December 2020:

	Amortised cost before modification	Net Modification (loss)
Services	13,713	(299)
Trade	8,688	(195)
Consumption	7,548	(185)
Housing	1,664	(43)
Farming/agro-activities	1,501	(35)
Production/construction	1,497	(33)
	34,611	**(790)**

(In thousands of Georgian Lari)

7. LOANS TO CUSTOMERS (CONTINUED)

The following table shows reconciliations from the opening to the closing balances of the loss allowance of loans to customers as at 31 December 2020:

Loss allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At the beginning of the year	**479**	**136**	**169**	**784**
Transfer to Stage 1	10	(10)	-	-
Transfer to Stage 2	(21)	21	-	-
Transfer to Stage 3	(16)	(49)	65	-
Net remeasurement of loss allowance	61	171	449	**681**
New financial assets originated	573	-	-	**573**
Transfer to Stage 2	(82)	82	-	-
Transfer to Stage 3	(88)	-	88	-
Repaid loans	(219)	(62)	(31)	**(312)**
Write-offs	-	-	-	-
At the end of the year	**697**	**289**	**740**	**1,726**

The following table shows reconciliations from the opening to the closing balances of the loss allowance of loans to customers as at 31 December 2019:

Loss allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At the beginning of the year	**401**	**179**	**245**	**825**
Transfer to Stage 1	7	(7)	-	-
Transfer to Stage 2	(9)	9	-	-
Transfer to Stage 3	(2)	-	2	-
Net remeasurement of loss allowance	997	371	150	**1,518**
New financial assets originated	569	-	-	**569**
Transfer to Stage 2	(83)	83	-	-
Transfer to Stage 3	(134)	-	134	-
Repaid loans	(220)	(33)	(47)	**(300)**
Write-offs	(1,047)	(466)	(315)	**(1,828)**
At the end of the year	**479**	**136**	**169**	**784**

(In thousands of Georgian Lari)

7. LOANS TO CUSTOMERS (CONTINUED)

Respective movements in the gross carrying amounts of loans to customers for the year ended 31 December 2020 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost				
At the beginning of the year	**56,738**	**1,919**	**346**	**59,003**
Transfer to Stage 1	46	(46)	-	-
Transfer to Stage 2	(1,870)	1,870	-	-
Transfer to Stage 3	(1,132)	(268)	1,400	-
New financial assets originated	60,220	-	-	**60,220**
Transfer to Stage 2	(591)	591	-	-
Transfer to Stage 3	(194)	-	194	
Net changes in interest accruals	17	70	95	**182**
Modification of contractual cash flows of financial assets	(711)	(61)	(18)	**(790)**
Repaid loans	(49,577)	(798)	(255)	**(50,630)**
Write-offs	-	-	(94)	**(94)**
FX and other movements	607	86	-	**693**
At the end of the year	**63,553**	**3,363**	**1,668**	**68,584**

Stage 2 loans include loans restructured according to the Organisation's standard procedure with gross amount of GEL2,116 thousand and with ECL of GEL34 thousand.

Stage 3 loans include loans restructured according to the Organisation's standard procedure with gross amount of GEL38 thousand and with ECL of GEL2 thousand.

Respective movements in the gross carrying amounts of loans to customers for the year ended 31 December 2019 are as follows:

Loans to customers at amortised cost	Stage 1	Stage 2	Stage 3	Total
At the beginning of the year	**47,316**	**1,298**	**558**	**49,172**
Transfer to Stage 1	41	(41)	-	-
Transfer to Stage 2	(1,138)	1,138	-	-
Transfer to Stage 3	(70)	(4)	74	-
New financial assets originated	66,374	-	-	**66,374**
Transfer to Stage 2	(590)	590	-	-
Transfer to Stage 3	(280)	-	280	-
Net changes in interest accruals	58	20	(34)	**44**
Repaid loans	(54,301)	(1,014)	(79)	**(55,394)**
Write-offs	(1,046)	(466)	(315)	**(1,827)**
FX and other movements	374	398	(138)	**634**
At the end of the year	**56,738**	**1,919**	**346**	**59,003**

Stage 2 loans include loans restructured according to the Organisation's standard procedure with gross amount of GEL1,283 thousand and with ECL of GEL20 thousand.

Stage 3 loans include loans restructured according to the Organisations' standard procedure with gross amount of GEL5 thousand and with ECL of GEL3 thousand.

Movements in the loan impairment allowance are as follows:

	2020	2019
Net remeasurement of loss allowance	369	1,218
New financial assets originated	573	569
Total recognised loss allowance for the period	**942**	**1,787**
Write-offs	94	-
Recoveries of amounts previously written off	(288)	(1,233)
Total impairment losses on debt financial assets	**748**	**554**

(In thousands of Georgian Lari)

8. OTHER ASSETS

	31 December 2020	31 December 2019
Repossessed property*	1,173	737
Financial assets at fair value though profit or loss	170	-
Prepayments	95	223
Tax asset	90	-
Cash collateral pledged under the credit line agreement	66	272
Other	30	159
	1,624	**1,391**

Movements in the repossessed property for the year ended 31 December 2020 and 2019 are as follows:

	31 December 2020	31 December 2019
At the beginning of the year	**737**	**318**
Additions	520	791
Disposals	(84)	(372)
At the end of the year	**1,173**	**737**

*Repossessed property represents non-financial assets acquired by the Organisation to settle overdue loans. The assets are initially recognised at fair value when acquired and included in inventories within other assets depending on their nature and the Organisation's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies. Inventories of repossessed property are recorded at the lower of cost or net realisable value.

The Organisation expects to dispose these assets in the foreseeable future. Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

9. DEFERRED TAX ASSET

	31 December 2018	Recognised in profit or loss	31 December 2019	Recognised in profit or loss	31 December 2020
Loans to customers	**357**	(90)	**267**	10	**277**
Right-of-use assets	**-**	(672)	**(672)**	64	**(608)**
Property and equipment	**(110)**	(92)	**(202)**	16	**(186)**
Intangible assets	**19**	(10)	**9**	16	**25**
Subordinated borrowings and other borrowed funds	**30**	14	**44**	38	**82**
Lease liabilities	**-**	705	**705**	37	**742**
Other liabilities	**50**	(7)	**43**	(19)	**24**
	346	**(152)**	**194**	**162**	**356**

Income tax expense for the years ended 31 December 2020 and 2019 comprises the following:

	2020	2019
Current income tax	(314)	(376)
Effect of temporary differences	162	(152)
	(152)	**(528)**

Reconciliation of the Income tax expense based on actual statutory rate is as follows:

	2020	2019
Profit before income tax	**1,635**	**3,048**
Applicable tax rate	15%	15%
Theoretical Income tax expense	**(245)**	**(457)**
Effect of permanent differences	93	(71)
	(152)	**(528)**

(In thousands of Georgian Lari)

10. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Organisation's lease agreements, for which right of use assets are recognised, include leases to the head office and branches. The lease of the head office is obtained from different third parties. The renewal option is implied through customary business practices. Lease payments are in GEL as well as in USD. Lease terms and incremental borrowing rates are provided as follows:

Lease agreement	Non-cancellable period	Enforceable period	Lease term	Incremental borrowing rate
Head office and branches	-	24-98 months	48-118 months	7.5%-12.5%

Right-of-use assets can be presented as follows:

	2020	2019
At the beginning of the year	**4,483**	**1,755**
New lease contracts	396	3,306
Amortisation	(829)	(578)
At the end of the year	**4,050**	**4,483**

Lease liabilities can be presented as follows:

	2020	2019
At the beginning of the year	**4,700**	**1,755**
New lease contracts	396	3,173
Interest expense	401	302
Rent concessions*	(100)	-
Lease payments	(1,057)	(845)
Foreign exchange movements	607	315
At the end of the year	**4,947**	**4,700**

*The Organisation has elected to apply the practical expedient introduced by the amendments to IFRS 16 to all rent concessions that satisfy the criteria. Substantially all of the rent concessions entered into during year satisfy the criteria to apply the practical expedient. The application of the practical expedient has resulted in the reduction of total lease liabilities of GEL100 thousand. The effect of this reduction has been recorded in profit or loss in the period in which the event or condition that triggers those payments occurred.

The Organisation has no borrowings received in the current or comparable period with similar currency, maturity and terms. IBR was determined based on observable market data for a similar sector.

(In thousands of Georgian Lari)

11. PROPERTY AND EQUIPMENT

Historical cost	Land and buildings	Furniture and equipment	Leasehold improvements	Total
At 31 December 2018	**1,184**	**911**	**325**	**2,420**
Additions	-	424	167	**591**
Write-offs	-	-	(19)	**(19)**
At 31 December 2019	**1,184**	**1,335**	**473**	**2,992**
Additions	-	282	216	**498**
Write-offs	-	(9)	(38)	**(47)**
At 31 December 2020	**1,184**	**1,608**	**651**	**3,443**
Accumulated Depreciation				
At 31 December 2018	**(16)**	**(353)**	**(118)**	**(487)**
Depreciation for the year	(21)	(173)	(55)	**(249)**
Write-offs	-	-	6	**6**
At 31 December 2019	**(37)**	**(526)**	**(167)**	**(730)**
Depreciation for the year	(21)	(240)	(90)	**(351)**
Write-offs	-	9	33	**42**
At 31 December 2020	**(58)**	**(757)**	**(224)**	**(1,039)**
Carrying amount				
At 31 December 2019	**1,147**	**809**	**306**	**2,262**
At 31 December 2020	**1,126**	**851**	**427**	**2,404**

12. SUBORDINATED BORROWINGS AND OTHER BORROWED FUNDS

	31 December 2020	31 December 2019
Principal	54,261	47,677
Accrued interest	667	407
	54,928	**48,084**

	Currency	Nominal interest rate	Year of maturity	31 December 2020
Secured loans				
From local financial institutions	GEL	9%-15%	2021-2023	25,494
Unsecured loans				
From international financial institutions	USD	8%-9%	2021-2022	15,854
Subordinated loans from related parties	USD	10%-11%	2024-2025	5,801
From related parties	USD	8%-11%	2021-2024	1,094
From related parties	GEL	14%	2021	20
From related parties	EUR	6%	2021	65
From individuals	USD	2%-8%	2021-2022	5,765
From individuals	GEL	14%	2021	206
From individuals	EUR	6%	2021	21
From other legal entities	USD	7%-8%	2021-2022	608
				54,928

(In thousands of Georgian Lari)

12. SUBORDINATED BORROWINGS AND OTHER BORROWED FUNDS (CONTINUED)

	Currency	Nominal interest rate	Year of maturity	31 December 2019
Secured loans				
From local financial institutions	GEL	10%-17%	2020-2021	20,989
From local financial institutions	USD	7%-8%	2021-2028	5,231
Unsecured loans				
From international financial institutions	USD	8%-9%	2021	8,000
Subordinated loans from related parties	USD	10%-11%	2024-2025	5,080
From related parties	USD	4%-11%	2020-2024	2,874
From related parties	GEL	14%	2020-2021	156
From related parties	EUR	6%	2020-2021	78
From individuals	USD	5%-11%	2020-2021	4,222
From individuals	GEL	14%	2020	45
From individuals	EUR	6%	2020	17
From other legal entities	USD	8.75%	2020	876
From other legal entities	GEL	15.25%	2020	516
				48,084

Loans received from Local Financial Institutions for 2020 and 2019 were secured with Organisation's real estate with carrying amount of GEL740 thousand and GEL631 thousand, loan portfolio with amount of GEL37,000 thousand and GEL37,000 thousand, cash collaterals GEL66 thousand and GEL272 thousand, respectively.

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

	2020		2019	
	Subordinated borrowings	Other borrowed funds	Subordinated borrowings	Other borrowed funds
At the beginning of the year	**5,080**	**43,004**	**3,913**	**34,516**
Repayment	-	(91,803)	-	(56,016)
Proceeds	-	94,288	844	63,464
Interest paid	(600)	(5,131)	(521)	(4,065)
Net Cash flows:				
Interest expense	551	5,338	545	4,124
The effect of changes in foreign exchange rates	770	3,431	299	981
At the end of the year	**5,801**	**49,127**	**5,080**	**43,004**

13. OTHER LIABILITIES

	31 December 2020	31 December 2019
Financial liabilities at fair value though profit or loss	448	-
Payables from received services	140	90
Salaries payable	86	216
Other	91	68
	765	**374**

(In thousands of Georgian Lari)

14. SHARE CAPITAL AND RESERVES

As at 31 December 2020 and 2019 the following shareholders owned shares of the Organisation and comprise the Shareholder Group:

	31 December 2020			31 December 2019		
Shareholder	Percentage of total ordinary shares	Number of ordinary shares	Number of preference shares	Percentage of total ordinary shares	Number of ordinary shares	Number of preference shares
Gia Petriashvili	32.18%	716,000	200	32.55%	716,000	200
Otar Rukhadze	14.61%	325,000	800	14.77%	325,000	800
Tengiz Maziashvili	9.42%	209,500	250	9.52%	209,500	250
Taras Nizharadze	8.36%	186,000	740	8.45%	186,000	740
Murman Ambroladze	8.09%	180,000	100	8.18%	180,000	100
Goderdzi Meladze	6.74%	150,000	300	6.82%	150,000	300
Giorgi Gotoshia	6.74%	150,000	100	6.82%	150,000	100
Giorgi Vachnadze	5.55%	123,500	110	5.61%	123,500	110
JB LLC	2.70%	60,000	200	2.73%	60,000	200
Eter Chachibaia	1.80%	40,000	-	1.59%	35,000	-
Giorgi Ghvaladze	1.71%	38,000	-	1.41%	31,000	-
Tatia Jajanashvili	1.21%	27,000	-	0.91%	20,000	-
Nino Devdariani	0.90%	20,000	-	0.64%	14,000	-
	100.00%	**2,225,000**	**2,800**	**100.00%**	**2,200,000**	**2,800**

Issued capital

The authorised, issued and outstanding share capital comprises 2,225,000 ordinary shares (2019: 2,200,000). All shares have a nominal value of GEL 1. During 2020, 25,000 ordinary shares were issued (2019: 15,400).

Difference between nominal value and market price is recognized in share premium. Share premium comprises GEL 996 thousand as at 31 December 2020 (As at 31 December 2019: GEL 900 thousand).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Organisation.

Preference shares

During 2018, the Organisation issued 2,800 non-redeemable preference shares with nominal value USD 1,000 (2020 and 2019: no additional issue). The Dividend rate on the preference shares is 12.5% per annum, payable semi-annually, subject to the Annual General Meeting (AGM) approval in each given year. The ability to pay dividends is subject to the Organisation's financial condition and results of operations and other factors considered by Annual General Meeting.

According the Charter of the Organisation, if based on the decision of AGM dividends on preference shares will not be paid two times in a row or dividend rate will be decreased, the holder of the preference shares has right to convert its preference shares into ordinary shares.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Organisation, which are determined according to Georgian legislation. During 2020 and 2019 reporting years the Organisation declared and issued preference dividends of GEL741 thousand and GEL553 thousand accordingly.

(In thousands of Georgian Lari)

15. NET INTEREST INCOME

Interest income is arising from:	2020	2019
Loans to customers	16,608	14,079
Placements with banks	40	1
Modification loss of contractual cash flows of financial assets	(790)	-
	15,858	**14,080**

Interest expense is arising from:	2020	2019
Borrowings from financial institutions	(3,728)	(3,140)
Borrowings from individuals	(1,011)	(1,089)
Borrowings from international financial institutions	(960)	(197)
Leases	(401)	(302)
Other borrowings	(190)	(243)
	(6,290)	**(4,971)**

16. OTHER OPERATING EXPENSES

	2020	2019
Advertising and marketing	(362)	(662)
Consulting*	(192)	(143)
Office supplies	(158)	(154)
Application inspection	(104)	(98)
Utilities	(94)	(78)
Communication	(92)	(92)
Security	(57)	(50)
Rent	(50)	(80)
Tax expense other than income tax	(43)	(24)
Bank charges	(33)	(63)
Transportation	(31)	(47)
Business trips	(30)	(49)
Other	(252)	(165)
	(1,498)	**(1,705)**

*For 2020 and 2019, professional fees paid to the audit firm for the provision of audit and other professional services comprised GEL 51 thousand and GEL 90 thousand.

17. COMMITMENTS AND CONTINGENCIES

LITIGATION

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

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

Management is unaware of any significant actual, pending or threatened claims against the Organisation.

COMPLIANCE WITH COVENANTS

The Organisation is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Organisation including declaration of default.

The Organisation has complied with all the financial covenants stipulated by lending agreements as of 31 December 2020 and 31 December 2019.

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.

FINANCIAL GUARANTEES

As at 31 December 2020 the Organisation has issued financial guarantee of GEL 2,200 thousand (At 31 December 2019: USD 850 thousand) to a Georgian Commercial Bank to secure loan of a related party with premium rate of 2%. The period of the guarantee is 10 years. The loan is secured by the property, for which the related party obtained the loan. The property (residential–commercial building in Tbilisi) is pledged under the same loan as a primary security. Additionally, as at 31 December 2020 and 2019, the Organisation pledged USD 500 thousand of loans to customers' portfolio as second mortgage to a Georgian bank to secure loan of a related party. Based on management's assessment, there is a remote chance of default. As at 31 December 2020 and 2019 the Organisation allocated financial guarantee in Stage 1 for the purposes of identifying expected credit loss under IFRS 9. Management estimates that ECL is immaterial at reporting date.

MANAGEMENT REPORT

In accordance with the Law on accounting, reporting and auditing (article 7) the Organisation has an obligation to prepare and submit Management Report to the State Regulatory Authority, together with Independent Auditors' Report no later than 1 October of the year following the reporting period. The Organisation has not prepared Management Report at the date of issue of the financial statements.

(In thousands of Georgian Lari)

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

REGULATIONS OF NATIONAL BANK OF GEORGIA

The Organisation is in compliance with minimum statutory capital requirements – the minimum cash contribution in the equity should not be less than 1,000 thousand (2018: GEL 500 thousand).

Starting from 1 September 2018, the Organisation also has to comply with the financial covenants established by the National Bank of Georgia (NBG), such as: capital adequacy, liquidity, property investment, investment, related party exposure and pledged assets ratios. The compliance with these ratios is monitored by the NBG on a monthly basis.

According to the NBG regulations, the Group has to hold minimum level of CAR in accordance with the below schedule:

- September 1, 2018 – December 31 2018: at least 16%
- January 1, 2019 – June 30 2019: 16-18%
- July 1, 2019 onwards – at least 18%

The below table discloses the compliance with NBG CAR ratio as at 31 December 2020 and 31 December 2019:

	31 December 2020	31 December 2019
Share capital	2,225	2,200
Share premium	996	900
Preference shares	7,347	7,347
Retained earnings	6,994	6,252
Eligible subordinated debt	5,801	5,080
Regulatory capital before reductions	**23,363**	**21,779**
Less intangible assets	(237)	(262)
Regulatory capital	**23,126**	**21,517**

	31 December 2020	31 December 2019
Total assets before reduction	78,202	69,857
Less intangible assets	(237)	(262)
Total assets after reduction	**77,965**	**69,595**

	31 December 2020	31 December 2019
Capital adequacy ratio	**30%**	**31%**

(In thousands of Georgian Lari)

18. TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

Related party balances and transactions as and for the year ended 31 December 2020:

Financial statement caption	Shareholder	Other related parties	Key management personnel
Subordinated borrowings	5,801	-	-
Other borrowed funds	-	1,179	-
Short-term employee benefits	-	-	(739)
Interest expense	(551)	(142)	-

Related party balances and transactions as and for the year ended 31 December 2019:

Financial statement caption	Shareholder	Other related parties	Key management personnel
Subordinated borrowings	5,080	-	-
Other borrowed funds	1,953	1,156	-
Other assets	3	-	-
Other liabilities	-	-	203
Short-term employee benefits	-	-	(763)
Interest expense	(683)	(114)	-

19. EVENTS AFTER REPORTING PERIOD

Receipt of borrowings

At 4 March 20201 the Organisation received borrowings from International Financial Institutions with amount of GEL3,326 thousand and USD500 thousand. Nominal interest rate is determined 14.2% and 6.4%, respectively. Maturity date is 2022-2023. Received borrowing from Local Financial Institutions amounted GEL3,000 thousand. Interest rate is 14% and repayment period of borrowings is 2022.

20. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS

INITIAL RECOGNITION

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Organisation 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 Organisation 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 Organisation recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognised.

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- 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 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 debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- 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.

20. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The Organisation makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Organisation’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Organisation’s stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or 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 Organisation 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.

20. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Organisation's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, Or
- The Organisation 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 Organisation has transferred substantially all the risks and rewards of the asset, or (b) the Organisation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Organisation changes its business model for managing financial assets.

IMPAIRMENT OF FINANCIAL ASSETS

Changes to the impairment estimation

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

IFRS 9 requires the Organisation 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.

Under IFRS 9, the Organisation 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 assessed 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 Organisation 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 Organisation 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.

(In thousands of Georgian Lari)

20. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stage 3: If the Financial Instrument is credit-impaired, it is then moved to stage 3. The Organisation 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.

Considering overdue days, the distribution of loans between three stages can be presented as follows:

Collateral	Stage 1	Stage 2	Stage 3
Real estate	0-30	31-90	>90
Movable property	0-30	31-90	>90
Third party personal guarantees	0-30	31-90	>90
Unsecured	0-30	31-90	>90

The Organisation automatically classified issued new loans into Stage 1. The loan will be transferred on the stage 2 if any of below-mentioned significant increase in credit risks trigger events occur:

a. Loan being past due for more than 30 days;
b. Restructuring of exposures;
c. Loss of the job by the borrower;
d. Borrower is unfit for work;
e. Fraud in the borrower's business (for the business loans);
f. Sale of crucial part of the business or property which is necessary for the entity's profit-making day to day activities (for business borrowers);
g. Deterioration of the macroeconomic outlook relevant to a particular borrower or a group of borrowers;
h. Deterioration of the regulatory, political, and technological outlook that relevant to a particular borrower or to a group of borrowers;
i. Adverse changes in the sector or industry conditions in which the borrower operates.

The loan will be transferred from Stage 2 to Stage 1 if:

a. The borrower pays the loan according to the loan schedule for 6 months after the Stage 2 trigger event occurrence;
b. Improvement of the circumstances due to which loan was transferred on Stage 2;
c. Restructured loans are never moved back to Stage 1;

Defaulted loans are transferred on the Stage 3 at the moment of the default. Loans which are on the Stage 3 are not transferred on the other stage.

Definition of default

The Organisation considers loan to be in default if any of the following criteria are met:

- Loans being past due for more than 90 days; Death of the borrower;
- A default, initiation of bankruptcy proceedings (for business borrowers); or
- Fraud from Borrower side toward communication with MFO such as: providing misleading information on financial results; Collaboration of MBC staff member with the borrower for the purpose of manipulation of desired results
- Force majeure

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 Organisation recognizes default are credit-impaired loans.

20. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Organisation 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 Organisation'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 Organisation considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

The Organisation 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 more than 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement tocredit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

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 Organisation incorporates forward-looking information into its measurement of ECLs.

The Organisation has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and probabilities of default. This key driver is GDP forecasts. Predicted relationships between the key indicator and default and loss rates of loan portfolios have been developed based on analysing historical data over the past 5 years.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

The Organisation renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default. Under the Organisation’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. Restructured loans are transferred to stage 2 and lifetime ECL is applied.

The revised terms usually include extending the maturity and changing the timing of interest payments.

20. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Measurement of ECLs

The key inputs into the measurement of ECLs are the term structures of the following variables:

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

These parameters are derived from internally developed statistical models and other historical data that leverage regulatory models. They are adjusted to reflect forward-looking information as described below. These variables (excluding EAD) are calculated annually. EAD is renewed whenever the loan impairment allowance is calculated.

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 based on three-year average. This rate is calculated separately for all segments, loans are grouped into segments according to the types of loan collateral. The PD is calculated by matching the migration matrices to the loan portfolio, which shows the probability of the loan portfolio shifting between the impairment stages.

Loss given default (LGD)

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

Exposure at default (EAD)

EAD represents the expected exposure in the event of a default. The Organisation derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is the gross carrying amount at default.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- product type;
- collateral type;

The groupings are subject to regular reviews to ensure that exposures within a particular group remain appropriately homogeneous.

20. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL LIABILITIES

The Organisation classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Organisation 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.

Offsetting financial assets and financial liabilities

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.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

Derecognition of financial liabilities

The Organisation derecognises financial liabilities when, and only when, the Organisation’s obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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.

FAIR VALUE HIERARCHY

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

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimated fair values of all financial instruments as at 31 December 2019 and 31 December 2018 approximate their carrying amounts.

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

20. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECOGNITION OF INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in profit or loss using the effective interest method. 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.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Other income and expenses are recognized in accordance with the accrual method, which is in line with the volume of services issued or received.

For Financial Instruments in Stage 1 and Stage 2, the Organisation 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.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost.

Interest expense presented in the statement of profit or loss and other comprehensive income includes interest on financial liabilities measured at amortised cost.

Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

A contract with a customer that results in a recognised financial instrument in the Organisation’s financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Organisation first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

SALARIES AND OTHER EMPLOYEE BENEFITS

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

RECOGNITION OF OPERATING AND ADMINISTRATIVE 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 recognized in the statement of comprehensive income immediately, if the expenses do not result in future economic profit anymore, or if future economic profit do not meet or stop to meet the requirements of recognition as an asset in the balance sheet.

20. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES

The Organisation as lessee

Identifying the lease

A contract is, or contains, a lease when it conveys the right to use an underlying asset for a period of time, in exchange for consideration. At inception of a contract, the Organisation assesses whether it meets the two following cumulative conditions to be qualified as a lease:

- its execution involves the use of an identified asset, and
- it conveys the right to direct the use of that identified asset.

Initial recognition

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Leases are recognised on the Organisation's balance sheet as follows:

- An asset representing the right to use the underlying asset over the lease term;
- A liability for the obligation to pay the lease payments.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Organisation's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Organisation if it is reasonably certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

At the commencement date, the Organisation measures the right-of-use asset at cost. The cost of the right-of-use asset is comprised:

- The amount of the initial measurement of the lease liability;
- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Organisation is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent measurement

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Organisation revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the revised discount rate.

20. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Organisation renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

The Organisation elects, by class of underlying asset, not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

Determination of lease term

The lease term is defined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (including the renewal option implied through customary business practices) if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

Management applies judgement to determine the lease term when contracts include renewal options that are exercisable only by the Organisation. It considers all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Organisation reassesses the lease term if there is a significant event or a change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew, or to terminate the lease.

Determination of incremental borrowing rate (IBR)

IBR is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment.

The management applies judgement to estimate the IBR. The management uses an observable information to determine the base rate and adjustments for the lessee specific factors and the asset factors (the adjustment for security).

Determination of lease payments

In Georgia it is customary that lease renewal option is implied through customary business practices and not all renewal options are documented within the lease agreements. In such cases, the initial measurement of the lease liability assumes the payment for renewal period will remain unchanged throughout the lease term.

Short-term leases and leases of low-value assets

The Organisation applies the recognition exemption for short-term leases (i.e. lease with a lease term of 12 months or less from the commencement date) and leases of low-value assets. Associated lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

20. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TAXATION

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

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, equipment and intangible assets are carried at historical cost less accumulated depreciation (amortisation) and recognized impairment loss, if any. Depreciation (amortisation) is charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. Depreciation (amortisation) is calculated on a straight-line basis at the following useful lives:

	Useful life (years)
Buildings	10 – 30
Leasehold improvements	Lease contract term
Furniture and equipment	3 – 5

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. The intangible assets with definite useful lives are amortised on a straight-line basis over expected useful lives.

20. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHARE CAPITAL AND DIVIDENDS

Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared. Dividends in relation to preference shares are reflected as an appropriation of retained earnings in the period when they are approved by Annual General Meeting in each given year.

Preference share capital that is non-redeemable with discretionary dividends is classified as equity.

FOREIGN CURRENCY TRANSACTIONS

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

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

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into Organisation’s functional currency at year-end official exchange rates are recognised in the statement of comprehensive income. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Table below presents the closing exchange rates by the National Bank of Georgia as at 31 December 2020 and 2019:

	USD / GEL
Exchange rate as at 31 December 2020	3.2766
Exchange rate as at 31 December 2019	2.8677

EVENTS AFTER REPORTING PERIOD

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