JSC MICROFINANCE ORGANIZATION

GEORGIAN CREDIT

Financial Statements

Together with the Independent
Auditor's Report

For the year ended 31 December 2019

CONTENT:

INDEPENDENT AUDITOR'S REPORT 3

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME 5

STATEMENT OF FINANCIAL POSITION 6

STATEMENT ON CHANGES IN EQUITY 7

STATEMENT OF CASH FLOWS 8

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION 9
2. BASIS OF PREPARATION 9
3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS 11
4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT 12
5. NET INTEREST INCOME 17
6. PROVISION FOR LOAN IMPAIRMENT 18
7. FEE AND COMMISSION INCOME 19
8. ADMINISTRATIVE AND OTHER OPERATING EXPENSES 20
9. INCOME TAX BENEFIT (EXPENSE) 20
10. CASH AND CASH EQUIVALENTS 21
11. LOANS TO CUSTOMERS 21
12. OTHER ASSETS 24
13. DEFERRED TAX ASSET 25
14. INTANGIBLE ASSETS 26
15. LEASES 27
16. INVESTMENT PROPERTY 27
17. PROPERTY AND EQUIPMENT 28
18. BORROWINGS 29
19. SUBORDINATED BORROWINGS 30
20. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS 31
21. SHARE CAPITAL AND SHARE PREMIUM 31
22. PRIOR PERIOD RECLASSIFICATIONS 31
23. EFFECTS OF CHANGES IN ACCOUNTING POLICIES 32
24. CONTINGENCIES AND COMMITMENTS 33
25. TRANSACTIONS WITH RELATED PARTIES 34
26. EVENTS AFTER THE REPORTING PERIOD 35
27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 36

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Management of **JSC Microfinance Organization Georgian Credit**

Opinion

We have audited the financial statements of JSC Microfinance Organization Georgian Credit (hereinafter – the Company), which comprise the statement of financial position as at 31 December 2019, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company 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.

Emphasis of Matter – Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the financial statements, which indicates that the Company has financial as well as non-financial covenants regarding the borrowings from non-resident financial institutions. As at 31 December 2019 and 2018 the Company was in breach for some covenants for majority of these financial institutions. In case of breach, these financial institutions have a right to demand all of the principal as well as accrued interest from the Company. As a result, the Company classifies these borrowings as current.

As stated in Note 2 these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Without qualifying our opinion, we draw attention to Note 26 to the financial statements, which describes events subsequent to the date of the financial statements indicating potential effects of COVID-19 outbreak.

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

Management and those Charged with Governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as they determine 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, the Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 Company's internal control
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Ivane Zhuzhunashvili (Registration number **SARAS-A-720718)**

Engagement Partner

Tbilisi, Georgia

28 September 2020

BDO

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

2 Tarkhnishvili Street
Vere Business Center
0179 Tbilisi
Georgia

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Management of **JSC Microfinance Organization Georgian Credit**

Opinion

We have audited the financial statements of JSC Microfinance Organization Georgian Credit (hereinafter - the Company), which comprise the statement of financial position as at 31 December 2019, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company 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.

Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the financial statements, which indicates that the Company has financial as well as non-financial covenants regarding the borrowings from non-resident financial institutions. As at 31 December 2019 and 2018 the Company was in breach for some covenants for majority of these financial institutions. In case of breach, these financial institutions have a right to demand all of the principal as well as accrued interest from the Company. As a result, the Company classifies these borrowings as current.

As stated in Note 2 these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Without qualifying our opinion, we draw attention to Note 26 to the financial statements, which describes events subsequent to the date of the financial statements indicating potential effects of COVID-19 outbreak.

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

Management and those Charged with Governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as they determine 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, the Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

BDO LLC, a Georgian Limited Liability Company, is a member of BDO International Limited, a UK Company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Ivane Zhuzhunashvili (Registration number **SARAS-A-720718)**

Engagement Partner

Tbilisi, Georgia

28 September 2020

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

(In GEL)

	Note	2019	2018*
Interest income	5	11,403,642	12,574,289
Interest expense	5	(5,861,974)	(6,198,097)
Net interest income		**5,541,668**	**6,376,192**
Provision for loan impairment	6	(813,705)	(1,395,021)
Net interest income after provision for loan impairment		**4,727,963**	**4,981,171**
Fee and commission income	7	551,156	524,826
Staff costs including salaries and bonuses		(3,366,474)	(3,607,195)
General and administrative expenses	8	(990,555)	(1,820,881)
Depreciation and amortization	14, 15, 17	(1,150,157)	(338,774)
Net other income (expense)		7,304	(56,104)
Gain on revaluation and initial recognition of investment properties, net	16	249,451	128,516
Loss from exchange rate differences, net		(89,438)	(43,882)
Loss before income tax		**(60,750)**	**(232,323)**
Income tax benefit (expense)	9	(237,687)	61,293
Total comprehensive loss		**(298,437)**	**(171,030)**

*Detailed information for prior year reclassifications are disclosed in Note 22.

Financial Statements for the year ended 31 December 2019 were approved on behalf of the Management on 28 September 2020 by:

Director ____________________ G. Naskidashvili

Financial Director ____________________ I. Khorava

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

(In GEL)

	Note	2019	2018*
Interest income	5	11,403,642	12,574,289
Interest expense	5	(5,861,974)	(6,198,097)
Net interest income		**5,541,668**	**6,376,192**
Provision for loan impairment	6	(813,705)	(1,395,021)
Net interest income after provision for loan impairment		**4,727,963**	**4,981,171**
Fee and commission income	7	551,156	524,826
Staff costs including salaries and bonuses		(3,366,474)	(3,607,195)
General and administrative expenses	8	(990,555)	(1,820,881)
Depreciation and amortization	14, 15, 17	(1,150,157)	(338,774)
Net other income (expense)		7,304	(56,104)
Gain on revaluation and initial recognition of investment properties, net	16	249,451	128,516
Loss from exchange rate differences, net		(89,438)	(43,882)
Loss before income tax		**(60,750)**	**(232,323)**
Income tax benefit (expense)	9	(237,687)	61,293
Total comprehensive loss		**(298,437)**	**(171,030)**

*Detailed information for prior year reclassifications are disclosed in Note 22.

Financial Statements for the year ended 31 December 2019 were approved on behalf of the Management on 24 September 2020 by:

Director ______________________ G. Naskidashvili

Financial Director ______________________ I. Khorava

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

(In GEL)

	Note	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	10	1,629,671	4,461,782
Financial instruments at fair value through profit or loss	20	-	67,870
Loans to customers	11	34,647,010	39,964,986
Other assets	12	5,172,357	354,949
Deferred tax asset	13	322,825	560,512
Intangible assets	14	377,834	274,052
Right of use assets	15	2,208,617	-
Investment property	16	-	2,444,057
Property and equipment	17	409,281	523,694
Total assets		**44,767,595**	**48,651,902**
Liabilities			
Borrowings	18	33,987,783	41,278,859
Subordinated borrowings	19	1,008,230	3,681,705
Financial instruments at fair value through profit or loss	20	583,167	-
Lease liabilities	15	2,416,781	-
Other liabilities		175,627	209,867
Total liabilities		**38,171,588**	**45,170,431**
Equity			
Share capital	21	1,515,568	1,136,346
Share premium	21	5,527,501	2,493,750
Accumulated loss		(447,062)	(148,625)
Total equity		**6,596,007**	**3,481,471**
Total liabilities and equity		**44,767,595**	**48,651,902**

Notes on pages 9-47 are the integral part of these financial statements.

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT ON CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

(In GEL)

	Share capital	Share premium	Retained Earnings (Accumulated loss)	Total
Balance at 31 December 2017	1,110,546	2,287,350	1,519,320	4,917,216
Change in accounting policy - IFRS 9 Financial Instruments (net of tax, 15%)	-	-	(1,496,915)	**(1,496,915)**
1 January 2018 after change in accounting policy	**1,110,546**	**2,287,350**	**22,405**	**3,420,301**
Issue of share	25,800	206,400	-	**232,200**
Total comprehensive loss	-	-	(171,030)	**(171,030)**
Balance at 31 December 2018	**1,136,346**	**2,493,750**	**(148,625)**	**3,481,471**
Issue of share	379,222	3,033,751	-	**3,412,973**
Total comprehensive loss	-	-	(298,437)	**(298,437)**
Balance at 31 December 2019	**1,515,568**	**5,527,501**	**(447,062)**	**6,596,007**

Notes on pages 9-47 are the integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

(In GEL)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss before income tax	**(60,750)**	**(232,323)**
Adjustments for:		
Provision for loan impairment	813,705	1,395,021
Depreciation and amortization	1,150,157	338,774
Loss from exchange rate differences, net	89,438	43,882
Gain on revaluation and initial recognition of investment properties, net	(249,452)	(128,516)
Finance income	(11,403,642)	(12,574,289)
Finance expense	5,861,974	6,198,097
Loss from disposal of fixed assets and intangible assets	-	7,433
Cash outflow from operating activities before changes in operating assets and liabilities	**(3,798,570)**	**(4,951,921)**
Decrease/(increase) in operating assets:		
Loans to customers	4,578,216	(7,742,388)
Other assets	(114,471)	236,592
Financial instruments at fair value through profit or loss	-	839,851
Increase/(decrease) in operating liabilities:		
Financial instruments at fair value through profit or loss	651,037	-
Other liabilities	(34,240)	(77,238)
Cash outflow from operating activities before interest and taxation	**1,281,972**	**(11,695,104)**
Interest paid on lease liabilities	(163,452)	-
Interest paid on borrowings	(6,232,369)	(6,100,106)
Interest received	11,741,969	12,591,138
Income tax paid	-	(119,524)
Net cash inflow (outflow) from operating activities	**6,628,120**	**(5,323,596)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(87,690)	(69,698)
Purchase of investment properties	(2,469,882)	(136,317)
Proceeds from sale of investment property	326,558	246,000
Purchase of intangible assets	(10,412)	(180,156)
Net cash outflow from investing activities	**(2,241,426)**	**(140,171)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Received (paid) borrowings, net	(10,314,344)	5,204,534
Proceeds from share issue	1,575,000	232,200
Principal paid on lease liabilities	(847,124)	-
Net cash inflow (outflow) from financing activities	**(9,586,468)**	**5,436,734**
Net increase/(Decrease) in cash and cash equivalents	**(5,199,774)**	**(27,033)**
Cash and cash equivalents at the beginning of the period	**4,461,782**	**3,201,345**
Effect of exchange rate fluctuations on the cash and cash equivalents held in foreign currencies	2,367,663	1,287,470
Cash and cash equivalents at the end of the year	**1,629,671**	**4,461,782**

Notes on pages 9-47 are the integral part of these financial statements.

1. GENERAL INFORMATION

Microfinance Organisation Georgian Credit (hereinafter – the Company) is a Joint Stock Company which was established on 12 September 2006 in Tbilisi, Georgia, in accordance with the Georgian legislation. The Company is registered by Tbilisi Tax Inspection Department, under identification number 206238800.

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

The main business activity of the Company is micro lending (Up to GEL100,000, from end of December 2017). The Company aspires to become one of the leading micro lenders in Georgia by leveraging its customer tailored product mix, experience and dedicated staff. The Company's financial products are: agro loans, business loans, consumer loans and pawnshop loans.

The Company had 14 branches as at 31 December 2019 and 2018.

Head office of JSC MFO Georgian Credit is located on 30 Kazbegi Ave., Saburtalo district, Tbilisi, Georgia.

As at 31 December 2019 the following shareholders owned the Company's shares:

Shareholders	Number of shares in 2019	Type	31 December 2019, %	Share capital GEL
Eastern Capital AS	440,785	Ordinary	29.13%	440,785
Frauenfinanztroihand LTD	175,000	Ordinary	11.57%	175,000
Thomas Schiffler	163,667	Ordinary	10.82%	163,667
Other shareholders owning less than 10%	736,116	Ordinary	48.48%	736,116
	1,515,568		**100.00%**	**1,515,568**

As at 31 December 2018 the following shareholders owned the Company's shares:

Shareholders	Number of shares in 2018	Type	31 December 2018, %	Share capital GEL
Eastern Capital AS	440,785	Ordinary	38.87%	440,785
Greeninvest LLC	195,171	Ordinary	17.21%	195,171
Other shareholders owning less than 10%	500,390	Ordinary	43.91%	500,390
	1,136,346		**100%**	**1,136,346**

For more information about the Company's share capital, refer to Note 21.

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of measurement

These financial statements have been prepared under the historical cost convention as modified by the initial recognition of financial instruments based on fair value and investment property subsequently measured at fair value.

The Company maintains its records and prepares financial statements in Georgian Lari (GEL) in accordance with International Financial Reporting Standards (IFRS) as required by Georgian legislation.

2. BASIS OF PREPARATION (CONTINUED)

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

The principal accounting policies adopted in the preparation of the financial statements are set in the Note 27.

The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires Company's management to exercise judgment in the most appropriate application in applying the Company's accounting policies. The principal accounting estimates and judgments adopted in the preparation of the financial statements are set in the Note 3.

Going concern

These financial statements have been prepared on the assumption that the Company is a going concern and will continue its operations for the foreseeable future. The Management and shareholders have the intention to further develop the business of the Company in Georgia. As it is noted in Note 26 the Management has reviewed impact of corona virus - COVID 19 on the Company's going concern and has implemented its Business Continuity Plan. Based on this plan, the Management expects some negative impact on its operation, but going concern will not be effected. As such, the Management believes that the going concern assumption is appropriate for the Company.

It should be noted, that the Company has financial as well as non-financial covenants regarding the borrowings from non-resident financial institutions. As at 31 December 2019 and 2018 the Company was in breach for some covenants for majority of these financial institutions. In case of breach, these financial institutions have a right to demand all of the principal as well as accrued interest from the Company. As a result, the Company presents these amounts as current. However, the Management believes that despite the fact that there is a contractual premise to recall loans in case of breach, it is very much unlikely to materialize for the following reason:

The Company is in negotiations with its partner funds regarding the restructuring of existing loans. The aforementioned negotiations have been going on since August and are to be finalized by 14 October 2020. Given the complexity of the negotiations (many parties), the Company has signed a special Stand Still Agreement which seizes all the principal payments until the final decision is made in October. The expectations are that the loans will be restructured.

Adoption of new or revised standards and interpretations

a) *New standards, interpretations and amendments effective from 1 January 2019*

New standards or interpretations effective for the first time for periods beginning on or after 1 January 2019 that had a significant effect on the Company's financial statements are:

- IFRS 16 Leases

Details of the impact this standard has had are given in Note 23 below. Other new and amended standards and interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Company as they are either not relevant to the Company's activities or require accounting which is consistent with the Company's current accounting policies.

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 Company has decided not to adopt early. The most significant of these is are as follows, which are all effective for the period beginning 1 January 2020:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)

2. BASIS OF PREPARATION (CONTINUED)

- Revised Conceptual Framework for Financial Reporting

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

Other

The Company 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 JUDGMENTS

The Company 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 Company'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 Company 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.

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 Company. It considers all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Company 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.

Determination of collateral value. Management monitors market value of collateral on a regular basis. Management uses its experienced judgment to adjust the fair value to reflect current circumstances. The amount and type of collateral depends on the assessment of credit risk of the counterparty.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. As a result the Company minimizes the risks related to this fact. The Company 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 outcome of these matters is different than the amounts recorded, such differences will impact tax expenses in the period in which such determination is made.

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Company is exposed to the different kind of risks that arise from its use of financial instruments. This note describes the Company'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.

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

	31 December 2019	31 December 2018
Cash and cash equivalents	1,629,671	4,461,782
Loans to customers	34,647,010	39,964,986
Borrowings	33,987,783	41,278,859
Subordinated borrowings	1,008,230	3,681,705
Lease liabilities	2,416,781	-
Other liabilities	112,637	92,335

General objectives, policies and processes

The Supervisory Board has overall responsibility for the determination of the Company'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 Company's finance function.

The Supervisory Board and appropriate committees receive monthly reports from the Company Managers through which they review the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Company's internal auditor also reviews the risk management policies and processes and reports its findings to the Management.

The overall objective of the Supervisory Board is to set polices that seek to reduce risks as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

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

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

Credit Risk

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

The main business of the Company is to provide micro-loans. Respectively credit risk is of crucial importance in the Company's risk management. To avoid significant financial damage caused by this the Company uses various methods to identify and manage effectively the credit risks.

Based on experience the Company uses an established credit policy which establishes the following basic stages of credit risk management:

- Tasks of the Credit Committee
- Monitoring of issued loans
- Ways of working on delinquent loans.

The Credit Committee is the body responsible for analyzing the information contained in loan applications and assessing and reducing the credit risks as far as possible. The Committee is an independent body authorized to make the final decision about approving or rejecting a loan application.

Accuracy and correctness of information presented to the Committee is the responsibility of the credit officer, who fills in the initial application after due scrutiny of the applicant's business and its credit risks. Committee members assess the application against established criteria (applicant's credit history, financial condition, competitive ability, etc.) and will frequently ask the credit officer for more information about the applicant before making a decision.

Mitigation of credit risk is also achieved in some cases through securing loan with real estate or other material assets.

Assessment of the applicant's creditworthiness through careful analysis of its business reduces the risk of financial loss. Monitoring is performed by credit officers who report the results to the Management. The Company does not maintain a strictly determined schedule for monitoring.

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

	31 December 2019	31 December 2018
Cash and cash equivalents (excluding cash on hand)	1,074,823	3,904,214
Loans to customers	34,647,010	39,964,986
	35,721,833	**43,869,200**

The Company's credit department reviews ageing analysis of outstanding loans and takes action to recover past due balances. Management therefore considers it to be appropriate to provide aging and other information about credit risk as disclosed in Note 11.

Market Risk

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors.

Market risk arises from the Company's use of interest bearing, tradable 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 interest rates (interest rate risk) and foreign exchange rates (currency risk).

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

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 Company. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities. All interest bearing assets of the Company have fixed interest rate as at 31 December 2019 and 2018.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates, which can have adverse effects if there are mismatches by currency of financial assets and liabilities. The Company is exposed to the risks of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows.

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

Financial assets	**GEL**	**USD**	**EUR**	**Total**
Cash and cash equivalents*	958,169	70,045	601,457	**1,629,671**
Loans to customers**	32,442,755	2,187,496	16,759	**34,647,010**
Total financial assets	**33,400,924**	**2,257,541**	**618,216**	**36,276,681**
Financial liabilities				
Borrowings*	290,614	20,722,482	12,974,687	**33,987,783**
Subordinated borrowings	-	1,008,230	-	**1,008,230**
Lease liabilities	116,264	2,300,517	-	**2,416,781**
Other liabilities	112,636	-	-	**112,636**
Total financial liabilities	**519,514**	**24,031,229**	**12,974,687**	**37,525,430**
Open balance sheet position	**32,881,410**	**(21,773,688)**	**(12,356,471)**	**(1,248,749)**

*	**GEL**	**USD**	**EUR**	**Total**
Restricted cash in banks	-	18,577,692	12,838,000	**31,415,692**
Borrowings collateralized with restricted cash in banks	31,833,190	-	-	**31,833,190**
**				
Loans to customers without impairment allowance	36,109,995	3,039,328	32,671	**39,181,994**
Impairment allowance	(3,667,240)	(851,832)	(15,912)	**(4,534,984)**

* For details about bank deposits and borrowings collateralized with bank deposits refer to Note 20.

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

The Company's exposure to foreign currency exchange rate risk as at 31 December 2018 is presented in the table below:

Financial assets	GEL	USD	EUR	Total
Cash and cash equivalents	3,768,391	631,326	62,065	**4,461,782**
Loans to customers**	34,855,576	5,081,563	27,847	**39,964,986**
Total financial assets	**38,623,967**	**5,712,889**	**89,912**	**44,426,768**
Financial liabilities				
Borrowings	1,573,862	35,175,003	4,529,994	**41,278,859**
Subordinated borrowings	1,701,665	1,770,380	209,660	**3,681,705**
Other liabilities	92,335	-	-	**92,335**
Total financial liabilities	**3,367,862**	**36,945,383**	**4,739,654**	**45,052,899**
Open balance sheet position	**35,256,105**	**(31,232,494)**	**(4,649,742)**	

	GEL	USD	EUR	Total
Restricted cash in banks*	-	28,662,671	4,918,300	**33,580,971**
Borrowings collateralised with restricted cash in banks*	33,513,101	-	-	**33,513,101**
**				
Loans to customers without impairment allowance	37,289,018	6,409,093	30,033	**43,728,144**
Impairment allowance	(2,433,442)	(1,327,530)	(2,186)	**(3,763,158)**

* For details about bank deposits and borrowings collateralized with bank deposits refer to Note 10.

CURRENCY RISK SENSITIVITY

The following table details the Company's sensitivity to a 20% increase and 20% decrease in the exchange rate of GEL per USD and per EUR. 20% is the sensitivity rate used when reporting foreign currency risk internally to key Management personnel 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 period for a 20% change in foreign currency exchange rates.

Impact on net profit and equity based on asset values including collateralized borrowings and restricted cash affect as well as impairment allowance can be presented as follows:

	31 December 2019		31 December 2018	
Currency rate sensitivity	**+20%**	**-20%**	**+20%**	**-20%**
USD impact	(513,965)	513,965	(248,459)	248,459
EUR impact	53,712	(53,712)	54,149	(54,149)
	(460,253)	**460,253**	**(194,310)**	**194,310**

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

Liquidity Risk

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

Liquidity of financial liabilities as at 31 December 2019 can be presented as follows:

Financial liabilities	1 month	1-3 months	3 months-1 year	1-2 years	2-5 years	5 year >	Total
Borrowings*	345,186	3,313,978	26,226,431	3,672,033	430,155	-	33,987,783
Subordinated borrowings	34,646	-	-	973,584	-	-	1,008,230
Lease liabilities	14,028	14,029	197,768	600,355	856,188	734,413	2,416,781
Other liabilities	112,637	-	-	-	-	-	112,637
	506,497	**3,328,007**	**26,424,199**	**5,245,972**	**1,286,343**	**734,413**	**37,525,431**

* As described in Note 2, the Company presents part of its borrowings from non-resident financial institutions as current due to breach of some covenants that were mainly caused because of IFRS 9 implementation.

Liquidity of financial liabilities as at 31 December 2018 can be presented as follows:

Financial liabilities	1 month	1-3 months	3 months-1 year	1-2 years	2-5 years	Total
Borrowings*	1,711,818	6,271,958	16,038,537	16,949,536	307,010	41,278,859
Subordinated borrowings	76,318	3,605,387	-	-	-	3,681,705
Other liabilities	92,335	-	-	-	-	92,335
	1,880,471	**9,877,345**	**16,038,537**	**16,949,536**	**307,010**	**45,052,899**
Lease payments	77,186	154,372	583,770	608,957	383,260	**1,807,545**
	77,186	**154,372**	**583,770**	**608,957**	**383,260**	**1,807,545**

* As described in Note 2, the Company presents part of its borrowings from non-resident financial institutions as current due to breach of some covenants that were mainly caused because of IFRS 9 implementation. The Company does not expect that these financial institutions will use their right to demand all of the principal as well as accrued balance.

Fair value measurement

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

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

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

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity.

The Company has financial liabilities measured at fair value – "Financial instruments at fair value through profit or loss"; accordingly, they are presented under the IFRS 13 fair value measurement hierarchy on level 2.

Fair value of cash and cash equivalents is measured based on level 1. Fair values of all other financial assets and financial liabilities are measured on level 3.

Capital disclosures

The Company's objectives when maintaining capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders;
- To comply with the capital requirements set by NBG and borrowers; and
- To provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Company sets the amount of capital it requires in proportion to risk. The Company 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 Company may adjust the amount of capital distributed to shareholders, return capital to shareholders, increase its capital, or sell assets to reduce debt.

The Company is in compliance with minimum statutory capital requirements of GEL1,000,000 and GEL500,000 as defined by the National Bank of Georgia as at 31 December 2019 and 2018, respectively.

5. NET INTEREST INCOME

Net interest income can be presented as follows:

	2019	2018
Interest income on financial assets recorded at amortized cost comprise:		
Loans to customers	11,373,545	12,574,289
Bank accounts	30,097	-
Total interest income	**11,403,642**	**12,574,289**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Borrowings	(5,488,924)	(5,507,511)
Subordinated borrowings	(209,598)	(343,745)
Swap expenses	-	(346,841)
Lease liabilities	(163,452)	-
Total interest expense	**(5,861,974)**	**(6,198,097)**
Net interest income	**(5,541,668)**	**(6,376,192)**

6. PROVISION FOR LOAN IMPAIRMENT

Movements in the loan impairment allowance for the year ended 31 December 2019 are as follows:

	Stage 1	**Stage 2**	**Stage 3**	
	12 month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL- credit-impaired	**Total**
Balance at 1 January	**756,976**	**771,691**	**2,212,932**	**3,741,599**
New loans issued	1,788,137	-	-	**1,788,137**
Transfer to Stage 1	92,484	(60,419)	(32,065)	**-**
Transfer to Stage 2	(1,946,064)	2,173,248	(227,184)	**-**
Transfer to Stage 3	-	(2,758,752)	2,758,752	**-**
Repaid loans	(660,467)	(902,326)	(1,412,063)	**(2,974,856)**
Write off for the year	-	-	(20,320)	**(20,320)**
Changes due to change in credit-risk	567,349	2,027,742	(594,667)	**2,000,424**
Balance at 31 December	**598,415**	**1,251,184**	**2,685,385**	**4,534,984**

Movements in the loan impairment allowance for the year ended 31 December 2018 are as follows:

	Stage 1	**Stage 2**	**Stage 3**	
	12 month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL- credit-impaired	**Total**
Balance at 1 January by IAS 39	-	-	-	**704,984**
Changes due to implementation IFRS 9	-	-	-	**1,761,076**
Balance at 1 January by IFRS 9	**488,199**	**426,086**	**1,551,775**	**2,466,060**
New loans issued	1,877,901	-	-	**1,877,901**
Transfer to Stage 1	59,830	(50,255)	(9,575)	**-**
Transfer to Stage 2	(2,137,975)	2,150,973	(12,998)	**-**
Transfer to Stage 3	-	(1,539,855)	1,539,855	**-**
Repaid loans	(1,213,763)	(812,538)	(1,649,206)	**(3,675,507)**
Write off for the year	-	-	(154,477)	**(154,477)**
Recoveries of previously written off	-	-	34,995	**34,995**
Changes due to change in credit-risk	1,682,784	597,280	912,563	**3,192,627**
Balance at 31 December	**756,976**	**771,691**	**2,212,932**	**3,741,599**

6. PROVISION FOR LOAN IMPAIRMENT (CONTINUED)

Movements in the gross amount of issued loans for the year ended 31 December 2019 are as follows:

	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	**Total**
Balance at 1 January	**29,525,558**	**9,459,944**	**4,721,083**	**43,706,585**
New loans issued	37,694,127	-	-	**37,694,127**
Transfer to Stage 1	2,662,330	(1,149,979)	(1,512,351)	**-**
Transfer to Stage 2	(12,484,970)	14,193,480	(1,708,510)	**-**
Transfer to Stage 3	-	(5,719,905)	5,719,905	**-**
Repaid loans	(33,422,072)	(7,405,577)	(1,696,641)	**(42,524,290)**
Write off for the year	-	-	(20,320)	**(20,320)**
Currency movement	24,909	150,751	150,232	**325,892**
Balance at 31 December	**23,999,882**	**9,528,714**	**5,653,398**	**39,181,994**

Movements in the gross amount of issued loans for the year ended 31 December 2018 are as follows:

	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	**Total**
Balance at 1 January by IAS 39	-	-	-	**35,970,456**
Balance at 1 January by IFRS 9	**28,168,034**	**4,506,422**	**3,296,000**	**35,970,456**
New loans issued	51,691,424	-	-	**51,691,424**
Transfer to Stage 1	1,635,079	(1,041,189)	(593,890)	**-**
Transfer to Stage 2	(17,576,206)	17,634,062	(57,856)	**-**
Transfer to Stage 3	-	(3,092,934)	3,092,934	**-**
Repaid loans	(34,392,773)	(8,546,417)	(896,623)	**(43,835,813)**
Write off for the year	-	-	(154,476)	**(154,476)**
Recoveries of previously written off	-	-	34,994	**34,994**
Balance at 31 December	**29,525,558**	**9,459,944**	**4,721,083**	**43,706,585**

7. FEE AND COMMISSION INCOME

Fee and Commission income includes penalties on early payments and other service fees, which in 2019 and 2018 amounted GEL542,186 and GEL524,826, respectively.

8. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative and other operating expenses can be presented as follows:

	2019	2018
Professional services*	(195,443)	(178,233)
Utilities	(128,146)	(114,037)
Business trips	(111,400)	(60,306)
Communication expenses	(105,809)	(101,279)
Office maintenance	(81,750)	(83,664)
Court related expenses	(79,844)	(33,249)
Fuel	(72,387)	(68,286)
Bank fees	(49,860)	(28,029)
Advertising and marketing expenses	(47,756)	(131,146)
Stationary	(22,476)	(23,515)
Taxes other than income tax	(17,360)	(17,242)
Operating leases	-	(911,187)
Other expenses	(78,324)	(70,708)
	(990,555)	**(1,820,881)**

*Audit fee in the year 2019 amounted GEL49,677 (2018: GEL27,516)

9. INCOME TAX BENEFIT (EXPENSE)

Income tax benefit can be presented as follows:

	2019	2018
Current tax	-	(114,038)
Unrecognized tax loss carry forward	(281,840)	-
Effect of temporary differences	44,153	175,331
	(237,687)	**61,293**

Reconciliation of income tax benefit based on statutory rate with actual income tax is as follows:

	2019	2018
Loss before income tax	**(60,750)**	**(232,323)**
Applicable tax rate	15%	15%
Theoretical income tax	9,113	34,848
Unrecognized tax loss carry forward	(281,840)	-
Effect of permanent differences	35,040	26,445
	(237,687)	**61,293**

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be presented as follows:

	31 December 2019	31 December 2018
Cash on hand	554,848	557,568
Cash on current accounts with banks in GEL	478,593	3,323,662
Cash on current accounts with banks in other currencies	596,230	580,552
	1,629,671	**4,461,782**

11. LOANS TO CUSTOMERS

Loans to customers can be presented as follows:

	31 December 2019	31 December 2018
Principal	37,439,003	42,301,921
Interest	1,742,991	1,404,664
Impairment allowance	(4,534,984)	(3,741,599)
	34,647,010	**39,964,986**

Portfolio distribution as at 31 December 2019, by loan type is as follows:

31 December 2019	Gross Amount	*ECL* Stage 1	Stage 2	Stage 3	Total ECL	Net Amount	ECL %
Agro Loans	19,024,097	(225,232)	(749,473)	(1,044,451)	(2,019,156)	17,004,941	10.61%
Business Loans	16,103,874	(283,468)	(427,232)	(1,279,517)	(1,990,217)	14,113,657	12.36%
Consumer Loans	3,921,107	(89,715)	(74,479)	(360,198)	(524,392)	3,396,715	13.37%
Pawnshop Loans	132,916	-	-	(1,219)	(1,219)	131,697	0.92%
	39,181,994	**(598,415)**	**(1,251,184)**	**(2,685,385)**	**(4,534,984)**	**34,647,010**	**11.57%**

Information about movements in provision for loan impairment is given in Note 6.

Portfolio distribution as at 31 December 2018, by loan type is as follows:

31 December 2018	Gross Amount	*ECL* Stage 1	Stage 2	Stage 3	Total ECL	Net Amount	ECL %
Agro Loans	21,348,009	(282,773)	(428,914)	(1,102,505)	(1,814,192)	19,533,817	8.50%
Business Loans	17,079,959	(290,360)	(252,638)	(812,068)	(1,355,066)	15,724,893	7.93%
Consumer Loans	5,087,024	(179,168)	(85,532)	(294,577)	(559,277)	4,527,747	10.99%
Pawnshop Loans	191,593	(4,624)	(4,566)	(3,874)	(13,064)	178,529	6.82%
	43,706,585	**(756,925)**	**(771,650)**	**(2,213,024)**	**(3,741,599)**	**39,964,986**	**8.56%**

Information about movements in provision for loan impairment is given in Note 6.

As it is described in Note 26, on 27 January 2020 the Company hired external debt collection agency. The Company handed over the loans with the gross amount GEL1,775,440 to the agency for collection for which it will pay the commission fee amounted 25 % of recovered amount.

Currency analysis of loans to customers is given in Note 4.

11. LOANS TO CUSTOMERS (CONTINUED)

Analysis by credit quality of loans outstanding at 31 December 2019 is as follows:

Agro Loan	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	14,867,605	526,297	15,393,902	(823,934)	14,569,968	5.35%
-overdue less than 31 days	849,449	36,284	885,733	(94,544)	791,189	10.67%
-overdue 31-60 days	103,551	17,763	121,314	(17,407)	103,907	14.35%
-overdue 61-90 days	173,311	32,643	205,954	(38,820)	167,134	18.85%
-overdue more than 90 days	2,002,079	415,115	2,417,194	(1,044,451)	1,372,743	43.21%
	17,995,995	**1,028,102**	**19,024,097**	**(2,019,156)**	**17,004,941**	**10.61%**

Business loans	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	11,569,835	164,466	11,734,301	(504,925)	11,229,376	4.30%
-overdue less than 31 days	1,518,006	40,762	1,558,768	(176,768)	1,382,000	11.34%
-overdue 31-60 days	123,689	4,233	127,922	(22,369)	105,553	17.49%
-overdue 61-90 days	52,890	2,908	55,798	(6,638)	49,160	11.90%
-overdue more than 90 days	2,268,728	358,357	2,627,085	(1,279,517)	1,347,568	48.70%
	15,533,148	**570,726**	**16,103,874**	**(1,990,217)**	**14,113,657**	**12.36%**

Consumer Loan	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	2,858,417	41,921	2,900,338	(120,134)	2,780,204	4.14%
-overdue less than 31 days	323,949	9,957	333,906	(33,164)	300,742	9.93%
-overdue 31-60 days	15,033	636	15,669	(2,643)	13,026	16.87%
-overdue 61-90 days	66,469	7,448	73,917	(8,254)	65,663	11.17%
-overdue more than 90 days	514,990	82,287	597,277	(360,197)	237,080	60.31%
	3,778,858	**142,249**	**3,921,107**	**(524,392)**	**3,396,715**	**13.37%**

Pawnshop Loans	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	118,063	1,109	119,172	-	119,172	0.00%
-overdue less than 31 days	4,364	85	4,449	-	4,449	0.00%
-overdue 31-60 days	540	20	560	-	560	0.00%
-overdue more than 90 days	8,035	700	8,735	(1,219)	7,516	13.96%
	131,002	**1,914**	**132,916**	**(1,219)**	**131,697**	**0.92%**

11. LOANS TO CUSTOMERS (CONTINUED)

Analysis by credit quality of loans outstanding at 31 December 2018 is as follows:

Agro Loan	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	17,402,915	413,257	17,816,172	(573,210)	17,242,962	3.22%
-overdue less than 31 days	702,698	30,841	733,539	(66,930)	666,609	9.12%
-overdue 31-60 days	244,609	17,251	261,860	(39,520)	222,340	15.09%
-overdue 61-90 days	160,125	30,598	190,723	(32,027)	158,696	16.79%
-overdue more than 90 days	1,952,444	393,271	2,345,715	(1,102,505)	1,243,210	47.00%
	20,462,791	**885,218**	**21,348,009**	**(1,814,192)**	**19,533,817**	**8.50%**

Business loans	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	13,082,933	91,536	13,174,468	(380,746)	12,793,723	2.89%
-overdue less than 31 days	1,545,003	36,786	1,581,789	(123,209)	1,458,580	7.79%
-overdue 31-60 days	177,172	5,969	183,141	(26,227)	156,914	14.32%
-overdue 61-90 days	156,436	9,790	166,226	(12,817)	153,409	7.71%
-overdue more than 90 days	1,714,380	259,954	1,974,335	(812,067)	1,162,268	41.13%
	16,675,924	**404,035**	**17,079,959**	**(1,355,066)**	**15,724,893**	**7.93%**

Consumer Loan	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	3,895,134	24,496	3,919,630	(156,354)	3,763,276	3.99%
-overdue less than 31 days	686,248	18,237	704,485	(88,060)	616,425	12.50%
-overdue 31-60 days	21,204	1,556	22,760	(7,462)	15,298	32.79%
-overdue 61-90 days	39,000	3,891	42,891	(12,823)	30,068	29.90%
-overdue more than 90 days	332,160	65,098	397,258	(294,578)	102,680	74.15%
	4,973,746	**113,278**	**5,087,024**	**(559,277)**	**4,527,747**	**10.99%**

Pawnshop Loans	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	143,024	725	143,749	(4,141)	139,608	2.88%
-overdue less than 31 days	16,278	344	16,622	(931)	15,691	5.60%
-overdue 31-60 days	24,183	777	24,960	(4,118)	20,842	16.50%
-overdue more than 90 days	5,975	287	6,262	(3,874)	2,388	61.87%
	189,460	**2,133**	**191,593**	**(13,064)**	**178,529**	**6.82%**

11. LOANS TO CUSTOMERS (CONTINUED)

Loans with collaterals and without collaterals outstanding at 31 December 2019 can be presented as follows:

31 December 2019	Gross Amount	ECL	Net Amount	ECL %
Collateralized Loans	32,922,728	(3,790,607)	29,132,121	11.51%
Uncollateralized Loans	6,259,266	(744,377)	5,514,889	11.89%
	39,181,994	**(4,534,984)**	**34,647,010**	**11.57%**

Loans with collaterals and without collaterals outstanding at 31 December 2018 can be presented as follows:

31 December 2018	Gross Amount	ECL	Net Amount	ECL %
Collateralized Loans	40,127,581	(3,364,618)	36,762,963	8.38%
Uncollateralized Loans	3,579,004	(376,981)	3,202,023	10.53%
	43,706,585	**(3,741,599)**	**39,964,986**	**8.56%**

Loans with collaterals by collateral's type can be presented as follows:

Collateral Type	31 December 2019	31 December 2018
Real Estate	18,103,106	21,089,180
Personal	14,386,039	18,513,940
Machinery	300,667	248,598
Jewelry	132,916	251,625
Marketable Securities	-	24,238
	32,922,728	**40,127,581**

12. OTHER ASSETS

Other assets can be presented as follows:

	31 December 2019	31 December 2018
Repossessed collaterals*	4,833,744	-
Prepayments	217,920	299,963
Tax asset**	54,873	-
Other	65,820	54,986
	5,172,357	**354,949**

*Detailed information about repossessed collaterals is disclosed in the Note 16.

**According to the Georgian Tax Legislation, the Company should pay taxes on unified treasury code applicable for all taxes. As a result, as at 31 December 2019 and 2018 the Company presents tax assets and liabilities on a net basis.

As at 31 December 2019 repossessed collaterals with the value GEL1,414,350 are pledged as collateral for borrowings from JSC TBC bank.

13. DEFERRED TAX ASSET

Deferred tax asset can be presented as follows:

	31 December 2019	31 December 2018
At 1 January	**560,512**	**121,020**
Changes due to implementation IFRS 9	-	264,161
Balance at 1 January 2018 after changes due to IFRS 9	**560,512**	**385,181**
Recognized in profit and loss		
Income tax benefit (expense)	(237,687)	175,331
At 31 December	**322,825**	**560,512**

Temporary differences as at 31 December 2019 can be presented as follows:

	Asset	Liability	Net	(Charged) credited to profit or loss
	2019	2019	2019	2019
Loans to customers	378,174	-	378,174	(208,085)
Right of use asset	-	(331,293)	(331,293)	(331,293)
Other assets	-	-	-	(8,504)
Property and equipment and intangible assets	-	(61,392)	(61,392)	17,162
Borrowings and subordinated borrowings	24,931	-	24,931	(32,919)
Lease liabilities	362,517	-	362,517	362,517
Other liabilities	6,583	-	6,583	853
Investment property	-	(56,695)	(56,695)	(37,418)
Tax loss carry-forwards	281,840	-	281,840	281,840
Total temporary differences	**1,054,045**	**(449,380)**	**604,665**	**44,153**
Unrecognized deferred tax assets				
Tax loss carry-forwards	(281,840)	-	(281,840)	(281,840)
Total unrecognized deferred tax assets	**(281,840)**	**-**	**(281,840)**	**(281,840)**
Tax asset (liabilities)	**772,205**	**(449,380)**	**322,825**	**(237,687)**
Set off of tax	(449,380)	449,380	-	-
Net tax assets (liabilities)	**322,825**	**-**	**322,825**	**(237,687)**

13. DEFERRED TAX ASSET (CONTINUED)

Temporary differences as at 31 December 2018 can be presented as follows:

	Asset	Liability	Net	(Charged) credited to profit or loss	(Charged) credited to Equity
	2018	**2018**	**2018**	**2018**	**2018**
Property and equipment & Intangible assets	-	(78,554)	(78,554)	29,744	-
Loans to customers	586,259	-	586,259	172,194	264,161
Other assets	8,504	-	8,504	12,896	-
Borrowings	57,850	-	57,850	(20,616)	-
Other liabilities	5,730	-	5,730	390	-
Investment Property	-	(19,277)	(19,277)	(19,277)	-
Tax asset/(liabilities)	**658,343**	**(97,831)**	**560,512**	**175,331**	**264,161**
Set off of tax	(97,831)	97,831			
Net tax assets/(liabilities)	**560,512**	**-**	**560,512**	**175,331**	**264,161**

14. INTANGIBLE ASSETS

Intangible assets as at 31 December can be presented as follows:

Historical cost	**Accounting and other software**	**Other intangible assets**	**Total**
Historical cost 31.12.2017	**141,154**	**29,289**	**170,443**
Additions	180,156	-	180,156
Historical cost 31.12.2018	**321,310**	**29,289**	**350,599**
Additions	133,896	10,412	144,308
Historical cost 31.12.2019	**455,206**	**39,701**	**494,907**
Accumulated amortization			
Accumulated amortization 31.12.2017	**(44,846)**	**(4,091)**	**(48,937)**
Amortization	(26,496)	(1,114)	(27,610)
Accumulated amortization 31.12.2018	**(71,342)**	**(5,205)**	**(76,547)**
Amortization	(38,891)	(1,635)	(40,526)
Accumulated amortization 31.12.2019	**(110,233)**	**(6,840)**	**(117,073)**
Net book value			
Net book value 31.12. 2018	**249,968**	**24,084**	**274,052**
Net book value 31.12. 2019	**344,973**	**32,861**	**377,834**

In 2019 and 2018 the Company started the use of some modules of accounting software - „Alta Software“.

15. LEASES

The Company leases a head office and 14 service centres around Georgia. Rent for these spaces is fixed over the lease term and are denominated in USD and GEL.

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

	Head office and branches
At 1 January 2019	**2,381,734**
Addition due to changes in estimate	734,412
Amortization	(907,529)
At 31 December 2019	**2,208,617**

Lease liabilities can be presented as follows:

	Head office and branches
At 1 January 2019	**2,381,734**
Addition due to changes in estimate	734,412
Interest expense	163,452
Lease payments	(1,010,576)
Currency movement difference	147,759
At 31 December 2019	**2,416,781**

Liquidity analysis for lease liabilities can be presented as follows:

	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Lease liabilities	28,057	197,768	600,355	856,188	734,413	**2,416,781**

16. INVESTMENT PROPERTY

Investment property can be presented as follows:

	2019	2018
1 January 2019	**2,444,057**	**2,425,224**
Additions	3,057,502	136,317
Disposals	(326,558)	(246,000)
Loss on revaluation of investment property	(341,257)	128,516
Transfer to other assets*	(4,833,744)	-
31 December	**-**	**2,444,057**

* Because of change in Georgian legislation, the Company is able to repossess and sell its collaterals more effectively. As such, the Company terminated the recognition of investment properties and transferred these assets to other assets as repossessed collaterals.

16. INVESTMENT PROPERTY (CONTINUED)

During 2019 and 2018 Investment property was carried at fair value, derived from the current market prices for comparable real estate determined by an external valuer who was an industry specialist in valuing such kind of property. Observable market prices were used for valuation and if necessary relevant adjustments were made for any difference in the nature, location or condition of the specific asset under valuation. Changes in fair value were recognized as profit or loss.

The Company has not received any rental income from investment properties.

As at 31 December 2018 investment properties with the value GEL1,743,815 are pledged as collateral for borrowings from JSC TBC bank.

Gain (loss) on revaluation and initial recognition of investment properties can be presented as follows:

	2019	2018
Net gain at initial recognition of repossessed inventory	590,709	-
Gain (loss) on revaluation of investment property	(341,257)	128,516
	249,452	**128,516**

17. PROPERTY AND EQUIPMENT

Property and equipment can be presented as follows:

Historical cost	Leasehold improvements	Furniture and office equipment	Computer and communication equipment	Vehicles	Total
Historical cost 31.12.2017	**261,976**	**391,042**	**723,790**	**98,605**	**1,475,413**
Additions	-	22,122	47,576	-	69,698
Disposals	-	-	-	(10,372)	(10,372)
Historical cost 31.12.2018	**261,976**	**413,164**	**771,366**	**88,233**	**1,534,739**
Additions	42,656	14,775	30,259	-	87,690
Historical cost 31.12.2019	**304,632**	**427,939**	**801,625**	**88,233**	**1,622,429**
Accumulated depreciation					
Accumulated depreciation 31.12.2017	**(57,151)**	**(206,602)**	**(426,406)**	**(12,661)**	**(702,820)**
Depreciation for the year	(31,058)	(48,994)	(218,662)	(12,450)	(311,164)
Accumulated depreciation of disposals	-	-	-	2,939	2,939
Accumulated depreciation 31.12.2018	**(88,209)**	**(255,596)**	**(645,068)**	**(22,172)**	**(1,011,045)**
Depreciation for the year	(42,259)	(56,774)	(97,771)	(5,299)	(202,103)
Accumulated depreciation 31.12.2019	**(130,468)**	**(312,370)**	**(742,839)**	**(27,471)**	**(1,213,148)**
Net book value					
Net book value 31.12. 2018	**173,767**	**157,568**	**126,298**	**66,061**	**523,694**
Net book value 31.12. 2019	**174,164**	**115,569**	**58,786**	**60,762**	**409,281**

The Company uses fully depreciated assets of GEL601,789 and GEL143,852 as at 31 December 2019 and 2018, respectively.

18. BORROWINGS

Borrowings can be presented as follows:

	Interest rate	Currency	**31 December 2019**	**31 December 2018**
Resident financial institutions	7%-14.50%	GEL-USD	865,966	1,409,570
Non-resident financial institutions*	6% - 10%	USD-EUR	24,974,416	33,059,796
Shareholders	6.5% - 14%	GEL-USD-EUR	8,147,401	5,175,861
Non-resident individuals	6.5% - 16%	GEL-USD-EUR	-	1,633,632
			33,987,783	**41,278,859**

*Details for borrowings from non-resident financial institutions can be presented as follows:

	31 December 2019	**31 December 2018**
INVEST IN VISION	3,321,818	5,475,301
Bank Im Bistum	3,868,243	3,679,224
HANSAINVEST Finance I GmbH & Co. geschlossene Investmentkommanditgesellschaft	3,206,047	-
Microfinance Enhancement Facility SA	3,194,551	-
GLS ALTERNATIVE INVESTMENTS	2,930,610	5,451,800
Triple Jump Innovation Fund	2,927,642	4,074,661
SME Finance Loans for Growth	2,619,644	2,432,171
EMF Microfinance Fund	1,460,170	4,073,957
MCE Social Capital	1,445,691	-
BLUEORCHARD MICROFINANCE FUND	-	4,038,930
Global impact investments Sarl as the Holder	-	2,762,757
KOLIBRI KAPITAL ASA	-	1,074,030
	24,974,416	**33,062,831**

Accrued interest and principal balances can be presented as follows:

	31 December 2019	**31 December 2018**
Principal balance	33,317,430	40,446,225
Accrued interest	670,353	832,634
	33,987,783	**41,278,859**

Currency and maturity analysis of borrowings is given in Note 4.

Current and non-current portions of borrowings can be presented as follows:

	31 December 2019	**31 December 2018**
Current*	29,882,151	37,957,639
Non-current	4,105,632	3,318,185
	33,987,783	**41,275,824**

18. BORROWINGS (CONTINUED)

*The Company has financial as well as non-financial covenants regarding the borrowings from non-resident financial institutions. In 2019 and 2018, the Company was in breach with some financial covenants. As a result, in 2019 the Company presented 21,708 thousand (2018: GEL13,280 thousand) as current. The Company does not expect that these financial institutions will use their right to demand all of the principal as well as accrued balance.

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

	31 December 2019	31 December 2018
1 January	**44,960,564**	**38,202,643**
Cash flow		
Received (paid) loans, net	(10,314,344)	5,204,534
Interest paid	(6,232,369)	(6,100,106)
Non-cash flows		
Interest accrual	5,698,522	6,198,097
Transfer to share capital	(1,751,593)	-
Translation differences	2,635,233	1,455,396
31 December	**34,996,013**	**44,960,564**

19. SUBORDINATED BORROWINGS

Subordinated borrowings can be presented as follows:

	31 December 2019	31 December 2018
Principal balance	973,584	3,605,387
Accrued interest	34,646	76,318
	1,008,230	**3,681,705**

The Company's subordinated borrowings are denominated in USD with equivalent value of GEL1,008,230 as at 31 December 2019, repayable in 2021-2023 years. Interest rates are 11%-12%.

As at 31 December 2018 the majority of Company's subordinated borrowings are denominated in USD and GEL, with equivalent value of GEL3,472,045. The rest of the subordinated borrowings, GEL209,660, is denominated in EUR. Interest rates for USD denominated borrowings are in the range of 11%-14%. For GEL and EUR denominated loans, interest rates amounts 16,3% and 8%, respectively. These loans are repayable in 2021 and 2023.

In the event of a bankruptcy principal payments as well as interest payments rank junior to any claim senior creditors are entitled to. The payments shall rank pari passu among subordinated debts and to other claims of junior creditors but remain senior to equity.

Subordinated borrowings amounted GEL1,751,593 were converted into the share capital during the year 2019.

20. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss as at 31 December 2019 and 2018 comprise foreign currency contracts with the amount of GEL583,167 (liability) and GEL67,870 (asset), respectively.

The Company aggregates non-derivative transactions of back to back loans from banks guaranteed by foreign currency deposits placed at the same banks as derivative instruments (foreign currency contracts), due to the fact that the transactions (placement of deposit and receiving of the loan) result, in substance, in a derivative. The conclusion is based on the following indicators:

- they are entered into at the same time and in contemplation of one another
- they have the same counterparty
- they relate to the same risk
- there is no apparent economic need or substantive business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.
- there is an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and future settlement.

21. SHARE CAPITAL AND SHARE PREMIUM

Company's share capital as at 31 December 2019 and 2018 comprise of 1,515,567 and 1,136,346 ordinary shares in issue with a value of GEL1 each, respectively.

On 26 May and 20 August 2019 the Company issued in addition 381,655 shares with nominal value of GEL1 per share. Placement price was defined as GEL9 per share and the share premium has increased with GEL3,053,240.

On 21 September 2018 company issued in addition 25,800 shares with nominal value of GEL1 per share. Placement price was defined as GEL9 per share and the share premium has increased with GEL206,400.

Information about shareholders is disclosed in Note 1.

22. PRIOR YEAR RECLASSIFICATIONS

The Management of the Company has made certain prior year reclassifications for better presentation purposes which can be presented as follows:

	Before change	Change	After Change
General and administrative expenses	(2,159,655)	338,774	(1,820,881)
Depreciation and amortization	-	(338,774)	(338,774)

23. EFFECTS OF CHANGES IN ACCOUNTING POLICIES

The Company adopted IFRS 16 with a transition date of 1 January 2019. The Company has chosen not to restate comparatives on adoption of the standard, and therefore, the revised requirements are not reflected in the prior year financial statements. Rather, these changes have been processed at the date of initial application (i.e. 1 January 2019). Details of the impact the standard has had are given below.

Effective 1 January 2019, IFRS 16 has replaced IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement Contains a Lease*. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Company does not have leasing activities acting as a lessor.

Transition Method and Practical Expedients Utilised

The Company adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 January 2019), without restatement of comparative figures. The Company elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Company applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17: exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date;

As a lessee, the Company previously classified leases as operating leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for leases.

On adoption of IFRS 16, the Company recognised right-of-use assets and lease liabilities as follows:

Classification under IAS 17	Right-of-use assets	Lease liabilities
Operating leases	Office and branches: Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.	Measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at 1 January 2019. The Company's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was 12.51% for rents denominated in GEL and 7.45-7.88% for rents denominated in USD.

23. EFFECTS OF CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at 1 January 2019:

		31 December 2018		
		As originally presented	IFRS 16	1 January 2019
Assets				
Right-of-use assets	(a)	-	2,381,734	**2,381,734**
Liabilities				
Lease liabilities	(b)	-	2,381,734	**2,381,734**

(a) The adjustment to right-of-use assets is for operating type of lease.

(b) The following table reconciles the minimum lease commitments disclosed in the Company's 31 December 2018 financial statements to the amount of lease liabilities recognised on 1 January 2019:

	1 January 2019
Irrevocable lease payments as of December 31, 2018	**1,280,660**
Effective assessment of the validity of lease contracts in accordance with IFRS 16	1,384,632
Minimum rent payments as of December 31, 2018	**2,665,292**
Excluded: The effect of discounted interest rate on primary lease	(283,558)
Lease liability as of January 1, 2019	**2,381,734**

Effect of IFRS 16 on the statement of comprehensive income can be presented as follows:

Operating lease (Administrative and other operating expenses**) before adoption of IFRS 16**	**(983,498)**
After adoption of IFRS 16:	
- Amortization	(907,529)
- Interest expenses	(163,452)
- Loss from exchange rate differences, net	(120,681)
Total expense after adoption of IFRS 16	**(1,191,662)**
Increase of expenses after adoption of IFRS 16	**(208,164)**

24. CONTINGENCIES AND COMMITMENTS

Litigation

In the ordinary course of business, the Company is subject to legal actions and complaints. However, the Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company.

NBG regulations

On 5 July 2018 the president of the National Bank of Georgia has approved regulation on assets classification and the creation of reserves for possible losses by Microfinance Organisations.

24. CONTINGENCIES AND COMMITMENTS (CONTINUED)

The Management states that the Company is in compliance with the requirements of NBG for the years 2019 and 2018, except the following ratios - Supervisory capital ratio and liquidity ratio. The Company got waiver from the NBG, according to which the Company is obliged to meet these ratios by 31 December 2020. It should be noted that this assessment relies on estimates and assumptions and may involve a series of complex judgments about future events and could be differed from the judgments of regulators.

Management report

In accordance with the Law on accounting, reporting and auditing (article 7) the Company 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 Company has fulfilled this obligation at the date of issue of the financial statements.

Taxes

Georgian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. As per currently effective tax legislation in Georgia fiscal periods remain open to review by the authorities in respect of taxes for 3 calendar years preceding the period of review.

Provisions for tax liabilities are recognised when the amount can be measured reliably. No provision is recognised for uncertain tax positions if no reliable estimate can be made. The Company's Management believes that Georgian tax legislation does not give raise to any further obligation other than already recorded and the Group's tax positions will be sustained.

25. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

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

b) Members of key management personnel of the Company 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 (b) or (c);

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 Company and related parties are disclosed below.

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

Financial statement caption	Shareholders	Key management personnel	Other related parties
Borrowings	8,147,401	-	-
Subordinated borrowings	745,861	-	233,054
Interest expense	(674,798)	-	(31,247)
Staff costs including salaries and bonuses	-	(336,000)	-
General and administrative expenses	-	(38,986)	-

25. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

Financial statement caption	Shareholders	Key management personnel	Other related parties
Borrowings	2,695,222	-	217,767
Subordinated borrowings	1,118,908	-	-
Interest expense	(220,813)	-	(77,983)
Staff costs including salaries and bonuses	-	(336,000)	-
General and administrative expenses	-	(22,029)	-

26. EVENTS AFTER THE REPORTING PERIOD

On 27 January 2020 the Company hired external debt collection agency. The Company handed over the loans with the gross amount GEL1,775,440 to the agency for collection for which it will pay the commission fee amounted 25 % of recovered amount.

Significant development and spread of the coronavirus (COVID-19) took place at the end of 2019. Despite the fact, that some cases were reported to the World Health Organisation on 31 December 2019, its announcement of coronavirus as a global health emergency was not made until 31 January 2020, because, significant development-spread of the virus did not take place until January 2020. The World Health Organization has declared the rapidly spreading coronavirus outbreak a pandemic.

On this basis, the effects of the coronavirus were generally a ‘non-adjusting event’ according IFRSs, and therefore forecasts, projections and associated assumptions used in preparing financial statements as at 31 December 2019 would reflect no change as a result of the coronavirus outbreak. As at 21 March 2020 the Government of Georgia has announced a national emergency regarding to the spread of the virus – COVID-19. It is impossible to measure the possible effect of virus on the Company as at reporting date but based on the General plan of the Company, the Management doesn’t expect material negative effect on the going concern of the Company.

In connection with the ongoing events around the Covid-19 pandemic, JSC MFO Georgian Credit, with its creditors, holds the "Standstill" status, which means a moratorium on all the borrowings from non-resident financial institutions. During this period, the Company continues to pay only the accrued interest on a contractual basis. This condition is currently being negotiated, although a joint verbal agreement has been reached with all relevant parties that the agreement will not be assumed breached before its expiration date and none of the parties will benefit from the default clause.

The Company is in breach of the National Bank's capital ratios in relation to capital requirements and other statutory requirements. This discrepancy is covered by a waiver from the National Bank, which is valid until December 31, 2020. The Management strongly believes there is no risk that the above-mentioned letter will not be renewed for an additional one year.

Additionally, the Covid-19 global pandemic has caused severe economic slowdown to the country and to microfinance lending segment. The Company has taken the following actions since March 2020: The Company provides services in strict compliance with the instructions set by the Government of Georgia; There were no mass dismissal of staff; Existing stability has been achieved mainly through the optimization of administrative costs, such as: rental costs, government-imposed income benefits, credit info servicing, fuel and other costs. The Company is currently at break-even point and is preparing for the autumn season, planning active lending, which will have a positive impact on the Company’s financial performance. For this purpose, active communication is underway with local banks to approve the credit line. Currently, two banks have been selected from which, through initial negotiations, there is a fairly high probability of approval of a credit line of GEL 5 million within a month, with a portfolio guarantee (not more than 20%). The Management believes, this amount will be enough to finance the autumn season and will also allow the Company to more effectively manage liquidity issues caused by Covid-19 global pandemic.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

FOREIGN CURRENCY TRANSLATION

The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The Company's functional and presentation currency is the national currency of Georgia, Lari.

Monetary assets and liabilities are translated into functional currency at the official exchange rate for the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities at year-end official exchange rates are recognized in statement of comprehensive income. Translation at year-end rates does not apply to nonmonetary items.

The closing exchange rates used for translating foreign currency balances to Georgian Lari were:

	Official rate of the National Bank of Georgia	
	USD	EUR
Exchange rate as at 31 December 2019	2.8677	3.2095
Exchange rate as at 31 December 2018	2.6766	3.0701

FINANCIAL INSTRUMENTS

In according to IFRS 9 the Company classifies all of its financial assets based on the business model. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

Financial liabilities are measured at amortized cost or at fair value through profit or loss (FVTPL).

All derivative instruments are measured at fair value through profit or loss (FVTPL).

Initial recognition of financial instruments

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

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

If the transaction price differs from fair value at initial recognition, the Company 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 Company 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 Company 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).

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL ASSETS AT AMORTIZED COST

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

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

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

The Company’s all financial assets are measured at amortised cost, except Derivative financial assets.

BUSINESS MODEL ASSESSMENT

There are three business models available under IFRS 9:

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

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

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

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

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

DERECOGNITION OF FINANCIAL ASSETS

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

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

IMPAIRMENT OF FINANCIAL ASSETS

Bases for ECL principles

In according to IFRS 9 requirements the Company records an allowance for expected credit loss (ECL) on all of its debt financial assets at amortised cost or FVOCI.

Equity instruments are not subject to impairment under IFRS 9.

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 Company first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

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

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Company 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 Company recognizes a credit loss allowance at an amount equal to lifetime expected credit losses for those Financial Instruments which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default that represents the probability of default occurring over the remaining lifetime of the Financial Instrument.

Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1. Financial Instruments in stage 2 are not yet deemed to be credit-impaired.

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

Allocating issued loans on stages based on overdue days are as follows:

Business Profile	Stage 1	Stage 2	Stage 3
Agro Loans	0-30	31-90	>90
Business Loans	0-30	31-90	>90
Consumer Loans	0-30	31-90	>90
Pawnshop Loans	0-30	31-90	>90

The Company automatically assigns stage 1 to the loan when it is issued. The loan is transferred to stage 2 if one of the following events occur:

a) 31 days past due;
b) Loan restructuring;
c) Initiation of legal proceedings on collateral by third party;
d) Criminal case against debtor or co-debtor;
e) Loss of job by the borrower;
f) Liquidation of a large part of the borrower's business;
g) Significant deterioration of the sector in which the borrower operates.

The loan is transferred from stage 2 to stage 1 if following events occur:

h) Overdue days are between 0 and 30;
i) Improvement of the circumstances for which the loan was moved to stage 2.

Restructured loans aren't transferred back to stage 1.

Defaulted loans are immediately moved to stage 3 and could be transferred to the previous stages.

Definition of default

Default status is assigned/applied to the loan if one of the following events occur:

a) 91 days past due;
b) Death or disappearance of the debtor or co-debtor;
c) Destruction or disappearance of collateral;
d) Bankruptcy or liquidation of the business (Relevant in case of business loans).

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Company recognizes default are credit-impaired loans.

Loan Restructuring

Restructuring operation/transaction is made within current liability. The agreement about changes in loan term is formed between the Company and borrower and the recalculation of loan schedule is done afterwards.

Loan restructuring is considered as change in credit risk for the Company. Restructured loans are not moved directly to stage 3 because such modification does not lead to material losses for the Company. Accordingly, restructured loans are moved to Stage 2. Restructured loans aren't transferred back to stage 1.

Significant increase in credit risk

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

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

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and

There is no unwarranted volatility in loss allowance from transfers between 12-months PD (probability of default) and lifetime PD.

Forward-looking information

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

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

The Company has identified and documented the key drivers of credit risk and credit losses for the portfolio using an analysis of historical data, has assessed impact of macro-economic variables on probability of default and recovery rate. The following macro-economic variables were analyzed:

- Real growth rate of GDP of Georgia;
- Inflation rate.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Forecasting of forward looking information

The Company uses last 5 years statistics (in case of existence) updated annually to estimate correlation between default rates and macroeconomic variables (GDP growth, inflation) and when calculating expected credit loss, specific macroeconomic forecast scenarios are taken into account if only correlation with inflation and GDP growth is more than 0.3 and less than -0.5, accordingly.

The Company uses baseline, upside and adverse scenarios provided by National Bank of Georgia. Based on the recommendation of National Bank of Georgia, probability of 50% is assigned to the baseline scenario, while the upside and adverse scenarios are given probability of 25%. The Company uses Vasicek model to adjust probability of default for forward-looking information

Measurement of ECL

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

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

Expected credit loss is measured separately for all segments. These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above. The variables (excluding EAD) are calculated annually. EAD is updated every time the loan loss provision 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.

The Company uses last 5 years statistics in case of existence (but not less than 2 years) to determine probability of default. This figure is calculated separately for all segments by applying migration matrix to the loan portfolio, which shows the probability that the loan portfolio will move from one bucket to another. Migration matrix is divided into following buckets:

Bucket	Days overdue	Restructuring status	Stage
1	Closed		
2	0	No	I
3	1-30	No	I
4	31-60	No	II
5	61-90	No	II
6	0-90	Yes	II
7	>90	Yes	III
8	>90	No	III

In case of default, default probability of 100% is assigned to the loan.

Loss given default (LGD)

LGD is is used to determine the amount of losses that may arise in case of default. In order to calculate loss given default, the Company uses loan amounts that were defaulted during last 5 years (in case of existence) and related cash inflows from default moment till reporting date.

The determination of the LGD takes into account expected future cash flows from collateral and other credit enhancements or expected payouts from bankruptcy proceedings for unsecured claims and where applicable time to realisation of collateral and the seniority of claims. Recovery through collateral is further considered in LGD calculations individually for each Financial Instrument.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash inflows are discounted by the weighted average effective interest rate that must not exceed the limits set by the legislation. Loss given default is calculated separately for all segments.

Exposure at default (EAD)

Exposure of default (EAD): The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial asset. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals discounted at the EIR, that must not exceed the limits set by the legislation.

EAD is calculated separately for all segments and is used to determine the amount of portfolio that may be subjected to credit risk at the moment of default. This figure is measured from outstanding loan amount considering expected changes and assuming that default occurs in the mid-year. Expected changes are the scheduled principal repayments till the forecasted overdue date and interest accrued from overdue date till the date when the loan becomes default.

Prepayment rate calculated on historical data is also considered and it reduces outstanding balance till the default date (It is used in calculations if only the average maturity of the loan exceeds 12 months). Exposure at default is calculated for each year during the weighted average contractual maturity of the portfolio.

INTEREST INCOME RECOGNITION

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

FINANCIAL LIABILITIES

In according to IFRS 9 financial liabilities could be classified for one of these categories – “Financial liability at fair value through profit or loss” and “Other financial liabilities”. The Company has estimated which business model was sufficiant to the Company’s financial liabilities and has classified them as “Other financial liabilities”.

The Company's other financial liabilities comprise other liabilities and borrowings.

Other financial liabilities are initially recognised at fair value plus transaction costs that are directly attributable to their release. The liabilities of such interest are subsequently recorded at amortized cost using the effective interest rate method which ensures accrual of interest on the carrying amount of the financial liability at constant rate. Interest expenses for any financial liability include the initial transaction costs and any additional charges for the redemption of the obligation.

Offsetting of financial assets and 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.

Derecognition of financial assets and liabilities

The Company derecognises financial assets when, and only when, when the rights to receive cash flows from the contract expires or these rights shall be transferred to the other party along with all risks and benefits related to the right of ownership. Any share in the financial asset which is retained by the Company shall be recognized as a separate asset or liability.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company derecognises financial liabilities when, and only when, the Company'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 other comprehensive income.

FAIR VALUE MEASUREMENT

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

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

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

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.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments included in financial assets at fair value through profit or loss or loss in the statement of financial position comprise foreign currency forward contracts and currency swaps.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. All derivatives are carried as financial assets when their fair value is positive and as financial liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

BORROWED FUNDS

Borrowed funds are initially recognised at fair value. Subsequently they are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings, using the effective interest method.

LEASES

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.

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 21. The following policies apply subsequent to the date of initial application, 1 January 2019.

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 (as is typically the case) this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognised where the Company is contractually required to dismantle, remove or restore the leased asset.

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 Company 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 updated discount rate that applied on lease commencement. 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. 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.

SHARE CAPITAL, SHARE PREMIUM AND DIVIDENDS

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When share capital is increased, any difference between the registered amount of share capital and the fair value of actual consideration received is recognized as share premium.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

REPOSSESSED COLLATERAL

Repossessed collateral represents non-financial assets acquired by the Company in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in property and equipment, investment property or inventories within other assets depending on their nature and the intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

PROPERTY, EQUIPMENT AND INTAGIBLE ASSETS

All property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Property and equipment is depreciated on a straight-line basis over expected useful lives. Residual values are not considered.

Company’s intangible assets primarily include capitalized computer software. They are stated at historical cost less accumulated amortization. Intangible assets are amortized on a straight-line basis over expected useful lives.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Below are given relevant useful lives of property, equipment and intangible asset, which are used for depreciation/amortization calculations purposes.

Group	Useful life (year)
Leasehold improvements	3-9
Furniture	3-7
IT equipment	1-7
Vehicles	5
Furniture	7-10
Intangible Assets	7-10

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

A reversal of an impairment loss is recognized immediately in statement of comprehensive income.

CURRENT AND DEFERRED INCOME TAX

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.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 realized 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.

RECOGNITION OF INTEREST INCOME AND EXPENSE

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

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Additional information for recognition of interest income is disclosed above, in the article **"INTEREST INCOME RECOGNITION".**

STAFF COSTS AND RELATED CONTRIBUTIONS

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

RECOGNITION OF OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses are recognized 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.

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

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are events before the date of financial statements authorization for issue that provide additional information about the Company's financial statements are reported in the financial statements. Events after the reporting period that do not affect the financial position of the Company at the balance sheet date are disclosed in the Notes to the financial statements when material.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(a) A contract (through its explicit or implicit terms);

(b) Legislation; or

(c) Other operation of law.

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

(a) By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities