JSC MICROFINANCE ORGANIZATION SWISS CAPITAL

Consolidated Financial Statements

Together with Independent Auditor's Report

For the year ended 31 December 2019

CONTENT:

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of JSC MICROFINANCE ORGANIZATION SWISS CAPITAL

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group 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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the 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 consolidated financial statements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

Engagement Partner

Tbilisi, Georgia

27 April 2020

JSC MICROFINANCE ORGANIZATION SWISS CAPITAL

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(In '000 GEL)

	Note	2019	2018
Interest income	5	28,370	34,697
Interest expense	5	(5,329)	(4,317)
Net interest income		**23,041**	**30,380**
Loan impairment charge	10	(4,133)	(5,312)
Net interest income after impairment losses		**18,908**	**25,068**
Other income	6	2,282	1,275
Net gain on financial instruments at fair value through profit or loss		99	(351)
Personnel expenses		(6,641)	(6,379)
Operating and administrative expenses	7	(7,034)	(7,410)
Foreign exchange gain, net		(519)	(520)
Profit before income tax		**7,095**	**11,683**
Income tax expense	8	(1,886)	(1,775)
Total comprehensive income		**5,209**	**9,908**
Total comprehensive income attributable to:			
Owners of the parent		5,209	9,908
		5,209	**9,908**

Consolidated financial statements for the year ended 31 December 2019 were approved on behalf of Management on 27 April 2020 by:

Chief Executive Officer ____________________ Givi Kereselidze

Chief Financial Officer ____________________ Levan Panchulidze

JSC MFO SWISS CAPITAL swisscapital ქანცელარია 205274273

The notes on pages 9-47 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

(In ’000 GEL)

	Note	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	9	5,362	6,965
Loans to customers	10	90,113	62,124
Financial leasing		307	1,524
Other assets	11	619	2,394
Tax assets	12	200	-
Deferred tax asset	8	1,627	1,981
Intangible assets	13	329	383
Right-of-use assets	14	5,517	-
Property and equipment	15	823	988
Total assets		**104,897**	**76,359**
Liabilities and equity			
Liabilities			
Borrowed funds	16	52,603	32,892
Tax liabilities	12	-	424
Lease liabilities	14	6,055	-
Other liabilities	17	838	481
Total liabilities		**59,496**	**33,797**
Equity			
Share capital	18	4,175	4,175
Share premium	18	2,068	2,068
Retained earnings		39,158	36,319
Total equity		**45,401**	**42,562**
Total liabilities and equity		**104,897**	**76,359**

The notes on pages 9-47 form an integral part of these consolidated financial statements

JSC MICROFINANCE ORGANIZATION SWISS CAPITAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

(In ’000 GEL)

	Share capital	Share premium	Retained earnings	Total owner’s equity
At 31 December 2017	**4,175**	**2,068**	**32,114**	**38,357**
Change in accounting policy - IFRS 9 Financial Instruments (excluding applicable tax rate - 15%)	**-**	**-**	**(4,116)**	**(4,116)**
1 January 2018 after change in accounting policy	**4,175**	**2,068**	**27,998**	**34,241**
Total comprehensive income	-	-	9,908	**9,908**
Dividends declared	-	-	(1,587)	**(1,587)**
At 31 December 2018	**4,175**	**2,068**	**36,319**	**42,562**
Total comprehensive income	-	-	5,209	**5,209**
Dividends declared	-	-	(2,370)	**(2,370)**
At 31 December 2019	**4,175**	**2,068**	**39,158**	**45,401**

The notes on pages 9-47 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(In ’000 GEL)

	2019	2018
Cash flows from operating activities		
Interest received	27,400	30,658
Proceeds from loans to customers and finance lease	84,604	75,159
Receipts from penalties	1,903	1,144
Loans issued to customers and finance lease	(88,307)	(80,521)
Administrative expenses paid	(7,477)	(10,327)
Salaries paid	(4,763)	(4,760)
Other inflows	2,708	2,867
Other outflows	(1,714)	(2,872)
Financial instruments at fair value through profit or loss	170	(314)
Other taxes paid	(1,996)	(1,710)
Income tax paid	(1,941)	(861)
Interest paid	(4,393)	(4,189)
Net cash inflow from operating activities	**6,194**	**4,274**
Cash flows from investing activities		
Sale of property, equipment and intangible assets	14	-
Purchases of property, equipment and intangible assets	(254)	(143)
Purchase of loan portfolio	(22,908)	-
Net cash outflow from investing activities	**(23,148)**	**(143)**
Cash flows from financing activities		
Receipts from borrowed funds excluding promissory notes	26,883	21,726
Repayment of borrowed funds excluding promissory notes	(6,756)	(21,065)
Receipts from promissory notes	300	1,430
Repayment of promissory notes	(2,089)	(3,002)
Principal paid on lease liabilities	(783)	-
Dividends paid	(2,370)	(1,587)
Net cash inflow/(outflow) from financing activities	**15,185**	**(2,498)**
Net increase/(decrease) in cash and cash equivalents	**(1,769)**	**1,633**
Cash and cash equivalents at the beginning of the year	**6,965**	**5,206**
Effect of changes in foreign exchange rate on cash and cash equivalents	166	126
Cash and cash equivalents at the end of the year	**5,362**	**6,965**

The notes on pages 9-47 form an integral part of these consolidated financial statements.

(In ’000 GEL)

1. GENERAL INFORMATION

JSC Microfinance Organization Swiss Capital (hereinafter – "the Company") was initially registered under the name of PFS Holdings LLC in March 2009 in Tbilisi, Georgia. In June 2010 PFS Holdings LLC was renamed and registered as Swiss Capital LLC. In October 2010 Swiss Capital LLC was renamed again and registered as Microfinance Organization Swiss Capital LLC. After one year, in October 2011 MFO Swiss Capital LLC re-registered as JSC MFO Swiss Capital. The legal address of the Company is: # 34 Pekini Avenue, Tbilisi, Georgia. The Company is registered by Tbilisi Tax Inspection Department, under identification number 205274273.

The Company holds the following subsidiaries:

Name	Country of incorporation and principal place of business	Proportion of ownership interest at 31 December	
		2019	**2018**
Swiss Capital Group LLC	Georgia	100%	100%
Swiss Capital Plus LLC	Georgia	100%	100%
Swiss Capital Auto LLC	Georgia	100%	100%
Swiss Capital Property LLC	Georgia	100%	100%

Thus, these consolidated financial statements comprise the financial statements of JSC MFO Swiss Capital and its subsidiaries.

The supreme governing body of the Company is the General Meeting of Shareholders. The supervision of the Company’s operations is conducted by the Supervisory Board, members of which are appointed by the General Meeting of the Shareholders. Daily management of the Company is carried out by the Director appointed by the Supervisory Board.

The main business activity of the Company is micro lending. 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: individual consumer loans, gold loans, auto loans and loans collateralized by real estate, financial leasing.

For the year 2019 the Company and its subsidiaries (hereinafter – "the Group") have a head office and 18 service centers around Georgia (2018: a head office and 16 service centers).

The Company has the following shareholders:

Shareholders	31 December 2019 and 2018, %
JSC Swiss Holdings	48.60%
Eyal Elboim	37.00%
Amir Yoeli	10.00%
Alon Bechor	2.40%
Paata Daiauri	2.00%
	100.00%

As at 31 December 2019 and 2018 the Group is ultimately controlled by three individuals: David Bechor who owns 61% shareholding in JSC Swiss Holdings, Ronen Bechor who owns 39% of Bechor Brother A.R. holdings, which owns 39% shareholding in JSC Swiss Holdings and Eyal Elboim. These individuals have the power to direct the transactions of the Group at their own discretion and for their own benefit.

(In ’000 GEL)

2. BASIS OF PREPARATION

These consolidated 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).

The preparation of consolidated financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the most appropriate application in applying the accounting policies. The areas where significant judgments and estimates have been made in preparing the consolidated financial statements are disclosed in Note 3.

The principal accounting policies adopted in the preparation of the consolidated financial statements are set in the Note 24.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis except for the derivative financial instruments at fair value through profit or loss.

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

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

Going concern

These consolidated financial statements have been prepared on the assumption that the Group 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 Group in Georgia. As it is noted in Note 23 the Management has reviewed impact of corona virus - COVID 19 on the Group’s going concern and has implemented its Business Continuity Plan. Based on this plan, the Management expects some negative impact on its operations, but going concern will not be effected. As such, the Management believes that the going concern assumption is appropriate for the Group.

Basis of consolidation

Subsidiaries

Subsidiaries are investees controlled by the Company. The Company controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Company consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control (over subsidiaries) commences until the date that control ceases.

The principal subsidiaries of the Company all of which have been included in these consolidated financial statements are as follows:

Name	Country of incorporation and principal place of business	Proportion of ownership interest at 31 December 2019 and 2018
Swiss Capital Group LLC	Georgia	100%
Swiss Capital Plus LLC	Georgia	100%
Swiss Capital Auto LLC	Georgia	100%
Swiss Capital Property LLC	Georgia	100%

The Company receives all of the returns related to the subsidiaries’ operations and net assets has the current ability to direct these entities’ activities.

Business activities of all subsidiaries except for Swiss Capital Property LLC are the extension of loans collateralized by real estate and movable property. Swiss Capital Property LLC is involved in management of real estate repossessed by the Group, however, its portfolio for the reporting period is not significant.

2. BASIS OF PREPARATION (CONTINUED)

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

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 Group’s consolidated financial statements are:

- IFRS 16 Leases

Details of the impact this standard has had are given in Note 20 below. Other new and amended standards and interpretations issued by the IASB that will apply for the first time in the next annual consolidated financial statements are not expected to impact the Group as they are either not relevant to the Group’s activities or require accounting which is consistent with the Group’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 Group 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)
- Revised Conceptual Framework for Financial Reporting

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

Other

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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.

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

- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

Taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Group's belief that its tax return positions are supportable, the Group believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. As a result the Group minimizes the risks related to this fact. The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. 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.

Legal proceedings. The Group only recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the consolidated financial statements. Realization of any contingent liabilities not currently recognized or disclosed in the consolidated financial statements could have a material effect on the Group's financial position. Application of these accounting principles to legal cases requires the Group's Management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its consolidated financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the consolidated financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's Management as to how it will respond to the litigation, claim or assessment. As at 31 December 2019 and 2018 the Group did not have material legal proceedings.

(In ’000 GEL)

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

Management of risk is fundamental to the business and is an essential element of the Group’s operations. The Group is exposed through its operations to the following financial risks:

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

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group’s objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these consolidated financial statements.

Principal financial instruments

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

	31 December 2019	31 December 2018
Cash and cash equivalents	5,362	6,965
Loans to customers	90,113	62,124
Finance lease	307	1,524
Other financial assets	165	1,262
Borrowed funds	52,603	32,892
Other financial liabilities	709	342
Lease liabilities	6,055	-

General objectives, policies and processes

The risk management policies aim to identify, analyze and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Supervisory Board, together with its committees have overall responsibility for the determination of the Group’s risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group 's finance function.

Both external and internal risk factors are identified and managed throughout the Group. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Management monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

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

(In '000 GEL)

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 the lending and other transactions with counterparties giving rise to financial assets.

The main business of the Group is to provide micro-loans. Respectively credit risk is of crucial importance in the Micro Financing Organisations (MFO) risk management. To avoid significant financial damage caused by this the Group uses various methods to identify and manage effectively the credit risks.

The Group's credit policy is determined by the Credit Manual, where all the related procedures and requirements, along with respective controls are clearly defined, including loan disbursement, monitoring of delinquent loans, etc.

The Group established a number of credit committees which are responsible for approving credit limits.

The Credit Committee is the analytical body responsible for analysing the information in the loan applications, assessing and reducing the credit risks as far as possible. The Credit Committee is the independent body with MFO authorized to make the final decision about financing or rejecting the loan application.

Accuracy and correctness of information presented to the Credit Committee is the responsibility of the credit officer, who fills in the initial application after the due scrutiny of the applicant's business and its credit risks. Eventually the Credit Committee members assess the application against the established criteria (applicant's credit history, financial condition, competitive ability, etc.).

Exposure to credit risk is also managed, in part, by obtaining collateral and personal guarantees.

Assessment of the applicant's creditworthiness through complete monitoring of its business allows timely avoiding the risk of financial loss. Monitoring is performed by credit officers who report the results to the management. For timely response to potential risks, monitoring results are presented to the management on a regular basis. The monitoring system helps to manage credit risks and timely neutralize them.

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

	31 December 2019	31 December 2018
Cash and cash equivalents (excluding cash on hand)	5,361	6,938
Loans to customers	90,113	62,124
Finance lease	307	1,524
Other financial assets	165	1,262
	95,946	**71,848**

The Group's credit department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed in Note 10 and Note 24.

Market risk

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

Market risk arises from the Group's use of interest bearing, 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).

(In ’000 GEL)

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 Group. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

The table below summarises the Group’s exposure to interest rate risks. The table presents the aggregated amounts of the Group’s interest-bearing financial assets and interest-bearing financial liabilities at carrying amounts:

	31 December 2019	31 December 2018
Total interest bearing financial assets	90,420	62,124
Total interest bearing financial liabilities	(58,658)	(32,892)
	31,762	**29,232**

The information about maturities of interest-bearing financial assets and interest-bearing financial liabilities is given in liquidity risk quantitative disclosures above.

The Group performs analysis of interest rate risk sensitivity.

The Group’s all interest-bearing assets and liabilities are at fixed interest rates except for three borrowing. Total outstanding balances of these borrowings are GEL14,000 thousand, GEL10,000 thousand and GEL8,000 thousand as at 31 December 2019 (2018: GEL7,200 thousand).

The Group’s Management estimates that market interest rate fluctuations by 1% will effect profit or loss by GEL320 thousand (2018: GEL72 thousand).

Currency risk

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

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

Financial assets	**GEL**	**USD**	**Total**
Cash and cash equivalents	2,026	3,336	**5,362**
Loans to customers	83,537	6,576	**90,113**
Finance lease	307	-	**307**
Other financial assets	165	-	**165**
	86,035	**9,912**	**95,947**
Financial liabilities			
Borrowed funds	42,329	10,274	**52,603**
Other financial liabilities	709	-	**709**
Lease liabilities	137	5,918	**6,055**
	43,175	**16,192**	**59,367**
Open balance sheet position	**42,860**	**(6,280)**	**36,580**

(In ’000 GEL)

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

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

Financial assets	GEL	USD	Other currencies	Total
Cash and cash equivalents	860	6,103	2	**6,965**
Loans to customers	56,934	5,190	-	**62,124**
Finance lease	1,524	-	-	**1,524**
Other financial assets	-	1,262	-	**1,262**
	59,318	**12,555**	**2**	**71,875**
Financial liabilities				
Borrowed funds	18,537	14,294	61	**32,892**
Other financial liabilities	342	-	-	**342**
	18,879	**14,294**	**61**	**33,234**
Open balance sheet position	**40,439**	**(1,739)**	**(59)**	**38,641**

	GEL	USD	Other currencies	Total
The principal amounts of outstanding forward foreign exchange contracts*	-	3,509	-	**3,509**

* For details forward foreign exchange contracts refer to Note 11.

Currency risk sensitivity

The following table details the Group’s sensitivity to a 20% increase and decrease in the USD against the GEL. 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.

Impact on total consolidated comprehensive income and equity based on asset values can be presented as follows:

	31 December 2019		31 December 2018	
Currency rate sensitivity	**+20%**	**-20%**	**+20%**	**-20%**
USD impact	(1,256)	1,256	354	(354)
EUR impact	-	-	(12)	12
	(1,256)	**1,256**	**342**	**(342)**

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 risk exists when the maturities of assets and liabilities do not match. The matching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transactions are often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

(In ’000 GEL)

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by Supervisory Board. The Group seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from banks, related parties and individuals in the form of promissory notes, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

In order to manage liquidity risk, the Group performs regular monitoring of future expected cash flows, which is a part of assets/liabilities management process. Liquidity position is monitored by the Finance Department. Under the normal market conditions, information on the liquidity position are presented to the Management periodically.

An analysis of the liquidity is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group.

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

Financial liabilities	**On demand and less than 1 month**	**More than 1 month and less than 1 year**	**More than 1 year**	**Total**
Borrowed funds	864	15,365	36,374	**52,603**
Other financial liabilities	-	709	-	**709**
Lease liabilities	81	919	5,055	**6,055**
	945	**16,993**	**41,429**	**59,367**

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

Financial liabilities	**On demand and less than 1 month**	**More than 1 month and less than 1 year**	**More than 1 year**	**Total**
Borrowings	9,456	7,571	15,865	32,892
Other financial liabilities	-	342	-	342
	9,456	7,913	15,865	33,234

Management believes that the Group has sufficient liquidity to meet its recognised and off-balance sheet obligations.

Management of capital

The Group's objectives when maintaining capital are:

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

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Group 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.

(In ’000 GEL)

5. NET INTEREST INCOME

Interest income and interest expense can be presented as follows:

	2019	2018
Interest income from:		
Loans to customers	28,108	34,427
Current bank accounts	136	92
Loans to shareholders and other related parties	126	178
	28,370	**34,697**
Interest expense		
Loans and borrowings	(4,902)	(4,317)
Lease liabilities	(427)	-
	(5,329)	**(4,317)**
Net interest income	**23,041**	**30,380**

Interest income accrued on loans collateralized with gold amounted GEL838 thousand after the business combination in 2019 (for details refer to Note 19).

6. OTHER INCOME

Other income can be presented as follows:

	2019	2018
Income from penalty and commission fee	1,945	1,144
Penalty from other operations	100	-
Gain from repossessed assets	79	-
Other income	158	131
	2,282	**1,275**

7. OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses can be presented as follows:

	2019	2018
Legal and other professional services*	(1,899)	(1,526)
Depreciation and amortization	(1,563)	(520)
Marketing and advertising	(1,540)	(2,321)
Operating lease rentals	-	(1,017)
Utilities and communication	(388)	(363)
Consumables and office supplies	(256)	(186)
Repairs and maintenance	(214)	(89)
Bank charges	(183)	(258)
Insurance	(108)	(223)
Fuel	(88)	(103)
Security	(61)	(52)
Business trips	(51)	(43)
Loss from sale of repossessed assets	(19)	(165)
Other	(664)	(544)
	(7,034)	**(7,410)**

*Audit fee for the consolidated financial statements were GEL54 thousand (2018:41 thousand)

(In ’000 GEL)

8. DEFERRED TAX ASSET

Deferred tax asset can be presented as follows:

	31 December 2019	31 December 2018
At 1 January	**1,981**	**861**
Changes due to implementation of IFRS 9	-	790
Balance at 1 January 2018 after changes due to IFRS 9	**-**	**1,651**
Recognized in profit or loss		
Tax benefit (expense)	(354)	330
At 31 December	**1,627**	**1,981**

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

	Asset 2019	Liability 2019	Net 2019	(Charged)/ credited to comprehensive income 2019
Loans to customers	1,570	-	1,570	(249)
Financial leasing	19	-	19	(192)
Cash and cash equivalents	4	-	4	(1)
Property and equipment	-	(71)	(71)	19
Intangible assets	10	-	10	7
Loans and borrowings	14	-	14	(7)
Other liabilities	1	-	1	-
Other assets	-	-	-	(11)
Right of use assets	-	(828)	(828)	(828)
Lease liabilities	908	-	908	908
Tax asset/(liabilities)	**2,526**	**(899)**	**1,627**	**(354)**
Set off of tax	(899)	899	-	-
Net tax assets/(liabilities)	**1,627**	**-**	**1,627**	**(354)**

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

	Asset 2018	Liability 2018	Net 2018	(Charged)/credited to comprehensive income 2018	(Charged)/credited to equity 2018
Loans to customers and financial leasing	1,819	-	1,819	231	790
Property and equipment	211	-	211	211	-
Intangible assets	5	-	5	5	-
Loans and borrowings	-	(90)	(90)	41	-
Other liabilities	3	-	3	3	-
Other assets	21	-	21	(190)	-
Tax asset/(liabilities)	1	-	1	2	-
Set off of tax	11	-	11	27	-
Net tax assets/(liabilities)	**2,071**	**(90)**	**1,981**	**330**	**790**
Loans to customers and financial leasing	(90)	90	-	-	
Property and equipment	**1,981**	**-**	**1,981**	**330**	**790**

Income tax expense can be presented as follows:

	2019	2018
Current tax	(1,532)	(2,105)
Effect of temporary differences	(354)	330
	(1,886)	**(1,775)**

(In ’000 GEL)

8. DEFERRED TAX ASSET (CONTINUED)

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

	2019	2018
Profit before income tax	**8,239**	**11,802**
Applicable tax rate	15%	15%
Theoretical income tax	(1,236)	(1,770)
Origination and reversal of permanent differences	(650)	(5)
	(1,886)	**(1,775)**

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be presented as follows:

	31 December 2019	31 December 2018
Cash in transit*	474	-
Cash on hand	1	27
Bank balances	4,912	6,972
Less: provision for impairment of cash and cash equivalents**	(25)	(34)
	5,362	**6,965**

*As at 31 December 2019 the Group has collected all cash on hand to transfer it on bank accounts. This amount of money was in transit till 3 January of 2020.

**Provision for impairment of cash and cash equivalents presents impairment charge according to IFRS 9.

Additional information about the currency and liquidity of cash and cash equivalents are disclosed in the Note 4.

10. LOANS TO CUSTOMERS

Loans to customers can be presented as follows:

	31 December 2019	31 December 2018
Principle	97,160	69,086
Interest	4,775	3,975
Impairment allowance	(11,822)	(10,937)
	90,113	**62,124**

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

	Gross Amount	Stage 1	Stage 2	Stage 3	Total ECL
Loans collateralized by real estate	11,538	(251)	(45)	(490)	(786)
Loans collateralized by vehicles	62,459	(2,348)	(201)	(5,432)	(7,981)
Loans collateralized by gold	23,441	(517)	(23)	(138)	(678)
Other uncollateralized consumer loans	4,497	(144)	(66)	(2,167)	(2,377)
	101,935	**(3,260)**	**(335)**	**(8,227)**	**(11,822)**

(In ’000 GEL)

10. LOANS TO CUSTOMERS (CONTINUED)

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

	Gross amount	Stage 1	Stage 2	Stage 3	Total ECL
Loans collateralized by real Estate	11,620	(135)	(102)	(559)	(796)
Loans collateralized by vehicles	54,187	(2,426)	(436)	(5,088)	(7,950)
Other uncollateralized consumer Loans	7,254	(530)	(204)	(1,457)	(2,191)
	73,061	**(3,091)**	**(742)**	**(7,104)**	**(10,937)**

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

Loans collateralized by real estate	Gross Amount	ECL	Net Amount	ECL %
-no overdue	9,914	(340)	9,574	3%
-overdue less than 31 days	444	(37)	407	8%
-overdue 31-60 days	144	(30)	114	21%
-overdue 61-90 days	-	-	-	0%
-overdue more than 90 days	1,036	(379)	657	37%
	11,538	**(786)**	**10,752**	**7%**

Loans collateralized by vehicles	Gross Amount	ECL	Net Amount	ECL %
-no overdue	48,927	(2,178)	46,749	4%
-overdue less than 31 days	3,909	(391)	3,518	10%
-overdue 31-60 days	455	(117)	338	26%
-overdue 61-90 days	297	(117)	180	39%
-overdue more than 90 days	8,871	(5,178)	3,693	58%
	62,459	**(7,981)**	**54,478**	**13%**

Loans collateralized by gold	Gross Amount	ECL	Net Amount	ECL %
-no overdue	19,665	(491)	19,174	2%
-overdue less than 31 days	1,610	(43)	1,567	3%
-overdue 31-60 days	704	(18)	686	3%
-overdue 61-90 days	273	(7)	266	3%
-overdue more than 90 days	1,189	(119)	1,070	10%
	23,441	**(678)**	**22,763**	**3%**

Other uncollateralized consumer Loans	Gross Amount	ECL	Net Amount	ECL %
-no overdue	1,778	(143)	1,635	8%
-overdue less than 31 days	180	(59)	121	33%
-overdue 31-60 days	73	(38)	35	52%
-overdue 61-90 days	81	(50)	31	62%
-overdue more than 90 days	2,385	(2,087)	298	88%
	4,497	**(2,377)**	**2,120**	**53%**

(In ’000 GEL)

10. LOANS TO CUSTOMERS (CONTINUED)

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

Loans collateralized by real estate	Gross amount	ECL	Net amount	ECL %
-no overdue	8,567	(176)	8,391	2%
-overdue less than 31 days	417	(23)	394	6%
-overdue 31-60 days	203	(26)	177	13%
-overdue 61-90 days	1,089	(118)	971	11%
-overdue more than 90 days	1,344	(453)	891	34%
	11,620	**(796)**	**10,824**	**7%**

Loans collateralized by vehicles	Gross amount	ECL	Net amount	ECL %
-no overdue	39,849	(2,151)	37,698	5%
-overdue less than 31 days	3,910	(434)	3,476	11%
-overdue 31-60 days	797	(219)	578	27%
-overdue 61-90 days	952	(243)	709	26%
-overdue more than 90 days	8,679	(4,903)	3,776	56%
	54,187	**(7,950)**	**46,237**	**15%**

Other uncollateralized consumer loans	Gross amount	ECL	Net amount	ECL %
-no overdue	4,559	(408)	4,151	9%
-overdue less than 31 days	499	(137)	362	27%
-overdue 31-60 days	220	(115)	105	52%
-overdue 61-90 days	204	(103)	101	50%
-overdue more than 90 days	1,772	(1,428)	344	81%
	7,254	**(2,191)**	**5,063**	**30%**

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 2019	**3,091**	**742**	**7,104**	**10,937**
New loans issued	3,945	-	-	**3,945**
Impairment for other assets (Note 11)	-	-	1,428	**1,428**
Transfer to Stage 1	225	(225)	-	**-**
Transfer to Stage 2	(2,902)	2,934	(32)	**-**
Transfer to Stage 3	-	(3,229)	3,229	**-**
Net repayments	(328)	(215)	(568)	**(1,111)**
Write off for the year	-	-	(2,362)	**(2,362)**
Recoveries of previously written off	-	-	542	**542**
Changes due to change in credit-risk	(771)	328	314	**(129)**
Balance at 31 December 2019	**3,260**	**335**	**9,655**	**13,250**

(In '000 GEL)

10. LOANS TO CUSTOMERS (CONTINUED)

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 2018 by IAS 39	-	-	-	**5,413**
Changes due to implementation IFRS 9	-	-	-	**5,264**
Balance at 1 January 2018 by IFRS 9	**2,659**	**404**	**7,614**	**10,677**
New loans issued	3,935	-	-	**3,935**
Transfer to Stage 1	198	(198)	-	**-**
Transfer to Stage 2	(3,861)	3,861	-	**-**
Transfer to Stage 3	-	(4,793)	4,793	**-**
Repaid loans	(201)	(148)	(719)	**(1,068)**
Write off for the year	-	-	(5,220)	**(5,220)**
Recoveries of previously written off	-	-	168	**168**
Changes due to change in credit-risk	361	1,616	468	**2,445**
Balance at 31 December 2018	**3,091**	**742**	**7,104**	**10,937**

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 2019	**57,112**	**3,512**	**12,437**	**73,061**
New loans issued	111,729	-	-	**111,729**
Transfer to Stage 1	3,388	(3,388)	-	**-**
Transfer to Stage 2	(11,114)	11,209	(95)	**-**
Transfer to Stage 3	-	(6,798)	6,798	**-**
Net repayments	(76,294)	(1,940)	(2,956)	**(81,190)**
Write off for the year	-	-	(2,309)	**(2,309)**
Recoveries of previously written off	-	-	542	**542**
Foreign exchange gain/(loss)	58	5	39	**102**
Balance at 31 December 2019	**84,879**	**2,600**	**14,456**	**101,935**

(In ’000 GEL)

10. LOANS TO CUSTOMERS (CONTINUED)

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

	Stage 1 12 month ECL	Stage 2 Lifetime ECL- not credit-impaired	Stage 3 Lifetime ECL- credit-impaired	Total
Balance at 1 January 2018 by IAS 39	-	-	-	**66,498**
Changes due to implementation IFRS 9	-	-	-	**358**
Balance at 1 January 2018 by IFRS 9	**53,017**	**2,561**	**11,278**	**66,856**
New loans issued	91,398	-	-	**91,398**
Transfer to Stage 1	2,874	(2,874)	-	**-**
Transfer to Stage 2	(15,435)	15,435	-	**-**
Transfer to Stage 3	-	(7,814)	7,814	**-**
Repaid loans	(74,781)	(3,798)	(1,246)	**(79,825)**
Write offs for the year	-	-	(5,588)	**(5,588)**
Recoveries of previously written off	-	-	170	**170**
Foreign exchange gain/(loss)	39	2	9	**50**
Balance at 31 December 2018	**57,112**	**3,512**	**12,437**	**73,061**

The primary factors that the Group considers whether a loan is impaired are its overdue status, financial position of a borrower and reliability of related collateral, if any. Detailed information about impairment policy is disclosed in the Note 24.

11. OTHER ASSETS

Other assets can be presented as follows:

	31 December 2019	31 December 2018
Prepayments	195	442
Assets of repossessed collateral	259	447
Receivables from Zip Credit	1,314	1,191
Provision for receivables from Zip Credit	(1,314)	-
Derivative financial instruments – Foreign currency contracts*	-	71
Other receivables	279	243
Provision for other receivables	(114)	-
	619	**2,394**

*Foreign exchange risk arises when the Group enters into transactions denominated in a currency other than their functional currency. Where the risk to the Group is considered to be significant, the Group’s treasury will enter into a USD/GEL exchange swap contract with JSC Bank of Georgia.

There were no active outstanding forward foreign exchange contracts at 31 December 2019.

The principal amounts of outstanding forward foreign exchange contracts at 31 December 2018 were GEL3,509 (USD1,311).

Total gain (loss) from fair value change of forward contracts amounted to GEL99 thousand (gain) and GEL351 thousand (loss) during the 2019 and 2018 years, respectively.

(In ’000 GEL)

12. TAX ASSETS/LIABILITIES

According to the Georgian Tax Legislation, the Group should pay taxes on unified treasury code applicable for all taxes. As a result, as at 31 December 2019 and 2018 the Group presents tax liabilities and assets on a net basis, amounting GEL200 (asset) and GEL424 (liability), respectively.

13. INTANGIBLE ASSETS

Intangible assets can be presented as follows:

Historical cost	**Accounting and other software**	**Other intangible assets**	**Total**
As at 31 December 2017	**692**	**169**	**861**
Additions	22	2	**24**
Disposals	(39)	(4)	**(43)**
As at 31 December 2018	**675**	**167**	**842**
Additions	54	-	**54**
As at 31 December 2019	**729**	**167**	**896**
Accumulated depreciation			
As at 31 December 2017	**(346)**	**(45)**	**(391)**
Additions	(86)	(26)	**(112)**
Disposals	39	5	**44**
As at 31 December 2018	**(393)**	**(66)**	**(459)**
Additions	(91)	(17)	**(108)**
As at 31 December 2019	**(484)**	**(83)**	**(567)**
Net book value			
As at 31 December 2018	**282**	**101**	**383**
As at 31 December 2019	**245**	**84**	**329**

14. LEASES

The Group leases a head office, land, warehouse and 18 service centers 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:

	Branches	**Warehouse**	**Land**	**Total**
At 1 January 2019	**3,253**	**41**	**361**	**3,655**
Additions including through business combinations (See Note 19)	2,517	-	380	**2,897**
Amortization	(892)	(8)	(135)	**(1,035)**
At 31 December 2019	**4,878**	**33**	**606**	**5,517**

(In '000 GEL)

14. LEASES (CONTINUED)

Lease liabilities can be presented as follows:

	Branches	Warehouse	Land	Total
At 1 January 2019	**3,253**	**41**	**361**	**3,655**
Additions including through business combinations (See Note 19)	2,517	-	380	**2,897**
Interest expense	376	5	46	**427**
Lease payments	(1,037)	(11)	(162)	**(1,210)**
Foreign exchange movements	256	-	30	**286**
At 31 December 2019	**5,365**	**35**	**655**	**6,055**

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	243	757	1,078	2,806	1,171	**6,055**

15. PROPERTY AND EQUIPMENT

Property and equipment can be presented as follows:

Historical cost	Buildings	Vehicles	Furniture	IT equipment	Leasehold improvements	Total
As at 31 December 2017	**109**	**269**	**467**	**837**	**601**	**2,283**
Additions	-	7	64	76	51	**198**
Disposals	-	(59)	(88)	(104)	(165)	**(416)**
As at 31 December 2018	**109**	**217**	**443**	**809**	**487**	**2,065**
Additions	-	25	41	161	47	**274**
Disposals	-	(41)	-	-	(18)	**(59)**
As at 31 December 2019	**109**	**201**	**484**	**970**	**516**	**2,280**
Accumulated depreciation						
As at 31 December 2017	**(11)**	**(67)**	**(224)**	**(373)**	**(252)**	**(927)**
Depreciation for the year	(3)	(54)	(92)	(169)	(90)	**(408)**
Accumulated depreciation of disposals	-	19	79	89	71	**258**
As at 31 December 2018	**(14)**	**(102)**	**(237)**	**(453)**	**(271)**	**(1,077)**
Depreciation for the year	(4)	(44)	(88)	(170)	(114)	**(420)**
Accumulated depreciation of disposals	-	17	5	-	18	**40**
As at 31 December 2019	**(18)**	**(129)**	**(320)**	**(623)**	**(367)**	**(1,457)**
Net book value						
As at 31 December 2018	**95**	**115**	**206**	**356**	**216**	**988**
As at 31 December 2019	**91**	**72**	**164**	**347**	**149**	**823**

(In '000 GEL)

16. BORROWED FUNDS

Borrowed funds can be presented as follows:

	31 December 2019	31 December 2018
Principal	51,938	32,608
Interest	665	284
	52,603	**32,892**

The Group's major lenders are shareholders and financial institutions.

	31 December 2019	31 December 2018
Non-current liabilities		
Unsecured promissory notes and other long term loans	3,513	3,974
Unsecured loans from a related party	2,661	4,578
Secured loans from financial institutions	22,200	7,313
Debt securities	8,000	-
	36,374	**15,865**

	31 December 2019	31 December 2018
Current liabilities		
Secured loans from financial institutions	9,926	7,241
Unsecured loans from a related party	1,332	2,309
Unsecured promissory notes and other short term loans	4,649	7,477
Debt securities	322	-
	16,229	**17,027**
Total loans and borrowings	**52,603**	**32,892**

As per contracts with financial institutions Borrowings are collateralized with the respective amounts of loans to customers.

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	31 December 2019	31 December 2018
Unsecured promissory notes and other long term loans	USD	7%-12%	2022	3,277	3,234
Unsecured promissory notes and other long term loans	GEL	13%	2021	236	740
Secured loans from financial institutions	GEL	13%-14%	2020-2022	32,126	14,554
Unsecured loans from a related party	USD	12%	2022	3,993	6,887
Unsecured promissory notes and other short term loans	USD	6%-12%	2022	3,004	4,174
Unsecured promissory notes and other short term loans	EUR	13%	2019	-	61
Unsecured promissory notes and other short term loans	GEL	12%-16%	2019	1,645	3,242
Debt securities	GEL	13%	2021	8,322	-
				52,603	**32,892**

(In '000 GEL)

16. BORROWED FUNDS (CONTINUED)

Part of the Group's short and long-term loan contracts contain different financial and other covenants. There is a regular communication between the lenders and the Group regarding the covenants, but as at 31 December 2019 the Group was in breach with some financial covenants for a loan from JSC Pasha Bank with amount of GEL10,000 thousand. These loans were long-term and were subject of significant risk as a result of breach. However, it should be noted, that the Group had communication about this case in 2019 with JSC Pasha Bank and got waiver from the bank about this fact.

As at 31 December 2018 the Group was in breach with some financial covenants for a loan from JSC Pasha Bank and SCINTILLA FUND L.P. with amount of GEL7,200 thousand and GEL636 thousand, respectively. These loans were long-term and were subject of significant risk as a result of breach. The Group had communication about this case with JSC Pasha Bank and got waiver from the bank about this fact after 2018. As such, the Group classified both loans on demand as at 31 December 2018.

Additional information of borrowed funds is disclosed in Note 4.

Changes in borrowings arising from financing activities, including both changes arising from cash flows and non-cash changes as at 31 December 2019 can be presented as follows:

	Non-current borrowed funds	**Current borrowed funds**	**Total**
As at 31 December 2018	**15,865**	**17,027**	**32,892**
Cash flows	18,183	(4,238)	**13,945**
Non-cash flows			
- Interest accruing in period	3,004	1,898	**4,902**
- Effects of foreign exchange	283	538	**821**
- Set off	(961)	1,004	**43**
As at 31 December 2019	**36,374**	**16,229**	**52,603**

Changes in borrowings arising from financing activities, including both changes arising from cash flows and non-cash changes as at 31 December 2018 can be presented as follows:

	Non-current borrowed funds	**Current borrowed funds**	**Total**
As at 31 December 2017	**19,273**	**14,080**	**33,353**
Cash flows	51	(5,151)	(5,100)
Non-cash flows			
- Interest accruing in period	1,746	2,571	4,317
- Effects of foreign exchange	365	155	520
- Set off	(5,570)	5,372	(198)
As at 31 December 2018	**15,865**	**17,027**	**32,892**

Additional information of borrowed funds is disclosed in Note 4.

(In '000 GEL)

17. OTHER LIABILITIES

Other liabilities can be presented as follows:

	31 December 2019	31 December 2018
Payable for purchase portfolio	404	-
Liabilities with advertising companies	193	114
Prepayments	116	93
Accounts payable	112	228
Other liabilities	13	46
	838	**481**

18. SHARE CAPITAL AND RESERVES

Share capital can be presented as follows:

Shareholders	Number of shares in 2019 and 2018	Type	31 December 2019 and 2018, %	Share capital GEL
JSC Swiss Holdings	1,215,000	Ordinary	48.6000%	2,029,126
Eyal Elboim	924,880	Ordinary	36.9952%	1,544,608
Amir Yoeli	250,000	Ordinary	10.0000%	417,516
Alon Bechor	60,120	Ordinary	2.4048%	100,404
Paata Daiauri	50,000	Ordinary	2.0000%	83,503
	2,500,000		**100.00%**	**4,175,157**

All shares have a nominal value of USD 1.

Share premium

As at 31 December 2019 the Group has share premium of GEL2,068 thousand (2018: GEL2,068 thousand) which represented a difference between the par value of issued ordinary shares and the fair value of actual consideration received.

Dividends

The shareholders are entitled to receive dividends as declared by the Group and are entitled to one vote per share at annual and general meeting of the Group.

In 2019, based on the decisions of the Supervisory Board, dividends with amount GEL2,370 thousand were declared and paid to the shareholders (2018: GEL1,587 thousand).

Name of the shareholder	2019	2018
JSC Swiss Holding	1,339	778
Eyal Elboim	812	732
Paata Daiauri	-	58
Amir Yoeli	219	19
	2,370	**1,587**

(In ’000 GEL)

19. BUSINESS COMBINATION

During the year 2019, the Group acquired portfolio of issued loans collateralized with gold. The Group has purchased portfolios from different financial institutions on different dates which can be presented as follows:

- JSC “TBC Bank” (loans repossessed from Jaba Credit LTD) on 4 and 11 July 2019;
- “Stsraphi Crediti” LLC on 4 October 2019;
- “Lari Credit” LLC on 3 December 2019;
- “Imedi-Credit 2018” LLC on 27 December 2019;

The principal reason for this acquisition was to issue a new product - loans collateralized with gold, and in this way increase the scale of operations. Before this the Group had no experience with such products, so with this operation the Group was able to receive sufficient knowledge and resources for operations. With purchased portfolio, the Group received required staff, who had relevant knowledge with working with such a product. Additionally, office rentals were handed over to the Group.

Details of the fair value of identifiable assets acquired, purchase consideration and goodwill are as follows (note that fair value was not used as the measurement basis for assets and liabilities that require a different basis, which includes leases):

	Book value	Adjustment	Fair value
Loans to customers	20,082	3,230	23,312
Right-of-use assets	-	798	798
Lease liabilities	-	(798)	(798)
	20,082	**3,230**	**23,312**

Goodwill can be presented as follows:

	Amount
Cash	22,908
Contingent cash consideration	404
Total consideration	**23,312**
Less assets acquired and liabilities assumed	(23,312)
Goodwill	**-**

20. EFFECTS OF CHANGES IN ACCOUNTING POLICIES

The Group adopted IFRS 16 with a transition date of 1 January 2019. The Group has chosen not to restate comparatives on adoption of the standard, and therefore, the revised requirements are not reflected in the prior year consolidated financial statements. Rather, these changes have been processed at the date of initial application (i.e. 1 January 2019) and recognised in the opening equity balances. 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 Group does not have leasing activities acting as a lessor.

(In ’000 GEL)

20. EFFECTS OF CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Transition Method and Practical Expedients Utilised

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

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

Classification under IAS 17	Right-of-use assets	Lease liabilities
Operating leases	Branch, warehouse and land spaces: 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 Group’s incremental borrowing rate as at 1 January 2019. The Group’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 12.36%-12.93% for rents denominated in GEL and 6.24%-8.05% for rents denominated in USD.

The following table presents the impact of adopting IFRS 16 on the consolidated 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)	-	3,655	**3,655**
Liabilities				
Lease liabilities	(b)	-	3,655	**3,655**

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

(In ’000 GEL)

20. EFFECTS OF CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

	1 January 2019
Minimum operating lease commitment at 31 December 2018	**4,443**
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(788)
Lease liability as at 1 January 2019	**3,655**

21. COMMITMENTS AND CONTINGENCIES

Litigation

In the ordinary course of business, the Group 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 Group.

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.

The Management states that the Group is in compliance with the requirements of NBG for 2019 and 2018, except for the pledged assets to secured liabilities ratio which was breached in 2019. The Group received a waiver from NBG with a deadline of 31 August 2020 to make the ratio compliant with the required level. It should be noted the assessment of compliance with other ratios 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 Group 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 Group has not fulfilled this obligation at the date of issue of the consolidated 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 Group 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 Group’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.

Compliance with covenants

The Company is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Company including growth in the cost of borrowings and going concern. The Company was not in compliance with covenants with some lenders as at 31 December 2019 and 2018. For details refer to Note 16.

(In '000 GEL)

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

b) Members of key management personnel of the Group;

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

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

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

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

Consolidated financial statement caption	Note	Shareholders	Other related parties	Total as per the consolidated financial statements caption
Borrowings	16	3,993	-	**52,603**
Interest expense	5	(555)	-	**(5,329)**
Operating and administrative expenses	7	-	(426)	**(7,034)**

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

Consolidated financial statement caption	Note	Shareholders	Other related parties	Total as per the consolidated financial statements caption
Borrowings	16	5,183	1,704	**32,892**
Interest expense	5	(379)	(398)	**(4,317)**
Operating and administrative expenses	7	-	(564)	**(7,410)**

The remuneration of directors and other members of key management were as follows:

	2019	2018
Key management personnel compensation:		
- Short term employee benefits including salaries and bonuses	(1,958)	(1,605)

23. EVENTS AFTER REPORTING PERIOD

According to the new regulation to restrict pledging collateralized assets against received borrowings, the Group updated its contracts with financial institutions in 2020: borrowed funds are collateralized with the respective amounts of receivables of loans to customers secured by gold.

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 Group as at reporting date but based on the General plan of the Group, the Management doesn't expect material negative effect on the going concern of the Group.

General plan of the Group includes following significant areas of operating activities:

- Security;
- Changes in credit policy;
- Analyzing of various scenarios of future events, identification of relevant risks and implementation of the optimal ways to continue the Group's activities.

Security – Where possible, financial services will be conducted exclusively via call centres, and the Group is also reducing the physical presence of credit officers in the service centres. The part of the staff that has direct contact with customers are equipped with appropriate equipment and other means of protection. The working day is reduced from 10:00-22:00 to 10:00-18:30. Special policies were developed for visitors. Back office employees are encouraged to work from home. Particular attention is paid to the intensive implementation of sanitary-disinfection works in the branches of the Swiss capital and in the head office. In addition, the Group provides transportation of employees in the direction of home-work-home. These changes have been implemented to reduce physical interaction and prevent the spread of Coronavirus, whilst maintaining the full financing capability required to support and assist the Group's customers.

Changes in credit policy - At the moment, in the terms of uncertainty and economic stagnation in the country's economy, the Group has adjusted its current credit policy, so that instead of focusing on the growth rate of the loan portfolio, the Group will pursue a policy of maintaining the existing loan portfolio. This change in lending is mainly due to the following: the Group on the one hand tightens the "loan to value" ratio (LTV) from 70% to 40%, and on the other hand, when approving a loan, the Group increases credibility of the borrower's credit history, in the process of making a decision for approving. These changes will facilitate the process of dealing with increased credit risk before the situation stabilizes and help the Management of the Group to more effectively manage and maintain adequate liquidity in the terms of increased credit risks. In addition, it should be noted that the Group has created a special department, which is responsible for developing and offering favorable conditions for customers who were suffered due to the created economic situation.

Analyze of various scenarios of future events, identification of relevant risks and implementation of the optimal ways to continue the Group**'s activities** - Following three factors should be considered:

1. Under risk are the cash flows from those customers, which were suffered by the crisis in economy;

2. The financing process of MFO's, from large financing institutions such as Banks and Funds, is complicated and in some cases are suspended;

3. Deposits attracted from physical persons are cashed out with more speed.

(In ’000 GEL)

23. EVENTS AFTER REPORTING PERIOD (CONTINUED)

The main challenge in such a situation for MFOs is liquidity risk. In connection to this the Management of the Group has analyzed three scenarios: pessimistic, approximate and optimistic one. For each one the Group has calculated cash flows for one year period. From each scenario, with the given structure of capital, costs and financing, as well as the existing cash reserves, the Group can cope with each scenario of the development of events.

In addition, support program of National Bank of Georgia came into force after the development of this General plan and is not reflected in it. The NBG has allocated GEL200 million to support the liquidity sector in the MFO sector, which will be distributed to MFOs in proportion to the size of their assets. Accordingly, the Group has been allocated GEL60 million, at an annual rate of approximately 8.1%, which the Group can take advantage of over the next two years. The Management of the Group is officially informed about this. The program was launched on 10 April 2020. Funding has 1 month maturity and is renewable after each month. Due to the fact that there was no problem with the liquidity of the Group, the Management has refrained from this funding in April. The Management thinks that the Group may not need to participate in this program at all. However, it should be noted that in the presence of this program, liquidity as a potential risk problem, in the event of any development, no longer exists.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal accounting policies applied in the preparation of these consolidated 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 Group is the currency of the primary economic environment in which the entity operates. The Group’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 the consolidated statement of comprehensive income. Translation at year-end rates does not apply to nonmonetary items.

At 31 December 2019 and 2018 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 Group 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 Group’s financial position when the Group becomes a party to the contractual provisions of the instrument.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

FINANCIAL ASSETS

Classification and subsequent measurement

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

FINANCIAL ASSETS AT AMORTIZED COST

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

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

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

BUSINESS MODEL ASSESSMENT

There are three business models available under IFRS 9:

- Hold to collect: It is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest form the counterparty.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change or to hold the assets for liquidity purposes.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

SOLELY PAYMENTS OF PRINCIPAL AND INTEREST (SPPI)

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

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

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

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

DERECOGNITION OF FINANCIAL ASSETS

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

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

IMPAIRMENT OF FINANCIAL ASSETS

Bases for ECL principles

In according to IFRS 9 requirements the Group 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.

(In ’000 GEL)

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IFRS 9, the Group first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

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

Three stage approach

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

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

Stage 2: The Group recognizes a credit loss allowance at an amount equal to lifetime expected credit losses for those Financial Instruments which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default that represents the probability of default occurring over the remaining lifetime of the Financial Instrument.

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

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

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

Collateral type	**Stage 1**	**Stage 2**	**Stage 3**
Real estate	0-30	31-90	>90
Vehicles	0-30	31-90	>90
Uncollateralized	0-30	31-90	>90

The Group 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 aren’t subjected to transferring to the previous stages.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

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

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

Loan Restructuring

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

Loan restructuring is considered as change in credit risk for the Group. Restructured loans are not moved directly to stage 3 because such modification does not lead to material losses for the Group. 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 Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

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

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

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

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

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

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

Forward-looking information

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

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

(In ’000 GEL)

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group 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.

Forecasting of forward looking information

The Group 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 Group 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 Group 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 Group 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.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 Group uses loan amounts that were defaulted during last 5 years (in case of existence) and related cash inflows from default moment till reporting date.

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.

INTEREST INCOME RECOGNITION

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

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 Group has estimated which business model was sufficiant to the Group’s financial liabilities and has classified them as “Other financial liabilities”.

The Group’s other financial liabilities comprise other liabilities, lease 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 consolidate 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 liabilities

The Group 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 Group shall be recognized as a separate asset or liability.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in 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.

Derivative Financial instruments measured at fair value by the level 2 in the fair value hierarchy are presented in Notes 11.

LOANS TO CUSTOMERS AND RECEIVABLES

Loans to customers and other receivables included in other assets in the consolidated statement of financial position are non-derivative financial assets measured at amortised cost. Loans to customers and other receivables are initially measured at fair value and subsequently at their amortised cost using the effective interest method.

FINANCIAL LEASING

Financial asset is recognized as a finance lease receivable when substantially all the risks and rewards are transferred incidental to ownership of an asset. Title may or may not eventually be transferred.

Finance lease in the consolidated statement of financial position is presented as a receivable in the scope of IAS 17 at an amount equal to the net investment in the lease. Under a finance lease substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, and thus the lease payment receivable is treated by the lessor as repayment of principal and finance income to reimburse and reward the lessor for its investment and services.

Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income by a seller-lessee. Instead, it shall be deferred and amortised over the lease term.

If the leaseback is a finance lease, the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security. For this reason it is not appropriate to regard an excess of sales proceeds over the carrying amount as income. Such excess is deferred and amortised over the lease term.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, non-restricted cash on current accounts in banks, and non-restricted cash on bank deposits with original maturity of less than three months. The Group creates allowance for cash and cash equivalents which are held in commercial banks. To estimate default probability Group uses rating given to financial organization by Standard & Poor’s, and default probability according to the rating. Each year the Group conducts a test to determine how accurately the probability of default, as well as 1-year ECL calculated according to IFRS 9 reflects the reality.

For this, the Group uses historical data of model PD. The test is assumed to be passed if the difference between model PD and historical default rate does not exceed one standard deviation. Otherwise, the Group determines the reasons for the deviation and makes appropriate adjustments according to it.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments included in financial assets at fair value through profit or loss or loss in the consolidated 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 AND OTHER LIABILITIES

Borrowed funds and other liabilities 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 consolidated 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 20. 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 Group’s incremental borrowing rate on commencement of the lease is used.

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 Group 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.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When the Group 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.

REPOSSESSED COLLATERAL

Repossessed collateral represents non-financial assets acquired by the Group 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 AND EQUIPMENT

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 Group 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 consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or devalued amounts to their residual values over their estimated useful lives, as follows:

Group	Useful life (year)
Buildings	30
Vehicles	5
Furniture	5
IT equipment	3-6
Leasehold improvements	4-7

Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

INTANGIBLE ASSETS

All of the Group's intangible assets have definite useful life (7 years) and primarily include capitalized computer software.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Intangible assets are amortized on a straight-line basis over expected useful lives of four to five years.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

At each reporting date, the Group 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 Group 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 group 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 consolidated 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 consolidated statement of comprehensive income.

TAXATION

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated 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 the country where the Group operates 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 consolidated financial statements.

However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are 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.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUSINESS COMBINATION

The Group applies IFRS 3 – “Business combination” to transactions or other events that constitute a business. For each transaction the Group determines if the assets acquired and liabilities assumed gives the Group control over those inputs that have the ability to create outputs.

The Group accounts for each business combination by applying the acquisition method.

As of the acquisition date, the Group recognizes and measures, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire, at their acquisition-date fair values.

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in according to the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any difference between consideration transferred and the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed is recognized as goodwill or a gain from a bargain purchase.

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

Other reserves represent share issued by the Group and transferred to existing shareholders as an increase of share capital free of charge.

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

RECOGNITION OF INTEREST INCOME AND EXPENSE

Interest income and expense are recorded in the consolidated 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 Group.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECOGNITION OF OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses are recognized in the consolidated 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 consolidated 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 and events before the date of consolidated financial statements authorization for issue, that provide additional information about the Group’s consolidated financial statements, are reported in the consolidated financial statements. Events after the reporting period that do not affect the consolidated financial position of the Group at the balance sheet date are disclosed in the Notes to the consolidated financial statements when material.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities are not reflected in the consolidated 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 consolidated financial statements with the exception of cases when the outflow of economic benefits is unlikely.

Contingent assets are not reflected in the consolidated 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 consolidated financial statements for the period, when the evaluation change occurred.

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.