JSC MICROFINANCE ORGANISATION

EURO CREDIT

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the year ended 31 December 2019

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FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of JSC MICROFINANCE ORGANISATION EURO CREDIT

Qualified Opinion

We have audited the financial statements of **JSC MICROFINANCE ORGANISATION EURO CREDIT** (hereinafter - the Organisation), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Organisation 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 Qualified Opinion

As disclosed in Note 12, the Organisation received borrowings and subordinated borrowings from related parties under common control. As at 31 December 2019 and 2018 such borrowings and subordinated borrowings are stated in the statement of financial position with amounts of GEL14,169,753 and GEL14,434,665, respectively. We did not receive sufficient appropriate audit evidence whether these borrowings and subordinated borrowings were recognised using effective interest rate as at 31 December 2019 and 2018. Because of this matter, we were unable to determine whether any adjustments might have been found necessary in respect of borrowings and the elements making up the financial statements.

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 Organisation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

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

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organisation’s internal control

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organisation’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Organisation 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.

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

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

Ivane Zhuzhunashvili (Registration # SARAS-A-720718)

For and on behalf of BDO LLC

Tbilisi, Georgia

23 September 2020

	Note	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	6	2,772,874	2,341,764
Loans to customers	7	33,846,448	39,933,649
Other assets		212,492	158,669
Property and equipment	8	528,592	288,505
Right-of-use assets	9	3,465,672	-
Tax asset	10	816,459	-
Deferred tax asset	11	128,478	103,242
Total assets		**41,771,015**	**42,825,829**
Liabilities			
Borrowings	12	7,946,939	14,434,665
Subordinated borrowings	12	9,090,214	7,148,561
Lease liabilities	9	3,184,554	-
Other liabilities	13	1,703,427	1,379,614
Taxes Payable	10	-	1,727,944
Total liabilities		**21,925,134**	**24,690,784**
Equity			
Share capital	14	1,000,000	500,000
Retained earnings and other reserves		18,845,881	17,635,045
Total equity		**19,845,881**	**18,135,045**
Total liabilities and equity		**41,771,015**	**42,825,829**

The financial statements for the year ended 31 December 2019 were approved on behalf of the management on 23 September 2020 by:

Director ____________________ Mikheil Nonikashvili

Financial Manager ____________________ Guja Tsintsadze

The notes on pages 9-33 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

(In Georgian Lari)

	Note	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	6	2,772,874	2,341,764
Loans to customers	7	33,846,448	39,933,649
Other assets		212,492	158,669
Property and equipment	8	528,592	288,505
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Director ____________ Mikheil Nonikashvili

Financial Manager ____________ Guja Tsintsadze

The notes on pages 9-33 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(In Georgian Lari)

	Note	2019	2018
Interest income		19,484,487	35,175,167
Interest expense		(3,856,393)	(10,701,137)
Net interest income before impairment		**15,628,094**	**24,474,030**
Loan impairment charge	7	(6,828,518)	(3,157,081)
Net interest income		**8,799,576**	**21,316,949**
Other income	15	5,762,424	7,580,418
General and administrative expenses	16	(5,494,479)	(6,758,171)
Salaries and other employee benefits	17	(4,947,934)	(5,087,334)
Other expenses	18	(483,174)	(133,550)
Net loss on foreign exchange operations		(1,924,495)	(2,622,427)
Profit before income tax		**1,711,918**	**14,295,885**
Income tax benefit/(expense)	11	25,236	(3,110,756)
Total comprehensive income		**1,737,154**	**11,185,129**

The notes on pages 9-33 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

(In Georgian Lari)

	Share capital	Retained earnings and other reserves	Total
At 31 December 2017	**250,000**	**(9,828,323)**	**(9,578,323)**
Transactions with owners (Note 5)	-	16,541,397	**16,541,397**
Increase of Share capital	250,000	-	**250,000**
Dividends	-	(263,158)	**(263,158)**
Total comprehensive income for the year	-	11,185,129	**11,185,129**
At 31 December 2018	**500,000**	**17,635,045**	**18,135,045**
Increase of Share capital	500,000	-	**500,000**
Dividends	-	(526,318)	**(526,318)**
Total comprehensive income for the year	-	1,737,154	**1,737,154**
At 31 December 2019	**1,000,000**	**18,845,881**	**19,845,881**

The notes on pages 9-33 form an integral part of these financial statements.

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**1,711,918**	**14,295,885**
Adjustments for:			
Interest income		(3,956,251)	(6,889,163)
Interest expense		1,162,216	10,438,088
Loan impairment charge	7	6,828,518	3,157,081
Depreciation and amortisation	16	592,151	40,383
Net loss on foreign exchange operations		1,924,495	2,622,427
Cash inflow from operating activities before changes in working capital		**8,263,047**	**23,664,701**
Movements in working capital:			
Loans to customers		3,244,870	(1,720,043)
Other assets		(61,338)	(135,067)
Other liabilities		(30,202)	780,037
Tax asset/(payable)		(2,544,403)	533,982
Cash inflow from operating activities before taxation		**8,871,974**	**23,123,610**
Income tax paid		-	(2,274,446)
Net cash inflow from operating activities		**8,871,974**	**20,849,164**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(351,628)	(296,990)
Net cash outflow from investing activities		**(351,628)**	**(296,990)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		3,803,702	2,814,738
Repayment of borrowings		(11,259,813)	(22,097,405)
Lease liabilities		(638,044)	-
Increase in Share capital		500,000	250,000
Dividends		(526,318)	(263,158)
Net cash outflow from financing activities		**(8,120,473)**	**(19,295,825)**
Net increase in cash and cash equivalents		**399,873**	**1,256,349**
Cash and cash equivalents at the beginning of the period		2,341,764	1,120,403
Effect of exchange rate fluctuations on the cash and cash equivalents held in foreign currencies		31,237	(34,988)
Cash and cash equivalents at the end of the year		**2,772,874**	**2,341,764**

Interest received by the Organisation during the year ended 31 December 2019 and 2018 amounted to GEL15,528,237 and GEL28,286,003, respectively.

Interest paid by the Organisation during the year ended 31 December 2019 and 2018 amounted to GEL2,694,177 and GEL263,048, respectively.

The notes on pages 9-33 form an integral part of these financial statements.

1. GENERAL INFORMATION

A) ORGANISATION

JSC MFO EURO CREDIT is a Joint Stock Company (the "Organisation") which was registered on 22 November 2011 at tax department office in Tbilisi, Georgia with the registration number 404919102.

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

As its principal business activity, the Organisation provides micro and small loans (secured by the automobiles) to customers in Georgia.

The Organisation's governing body is the general meeting of shareholders. Daily activities in each branch are supervised by the branch manager appointed by the Organisation's supervisory board and nominated by the CEO.

The Organisation had 9 branches in major cities of Georgia as at 31 December 2019.

The shareholders of the organisation as at 31 December 2019 and 2018 can be presented as follows:

Shareholders	31 December 2019	31 December 2018
Zuk China Stone Works Limited	75.51%	75.51%
D. Mody Properties LTD	7.99%	7.99%
Iosef Reuven Grenikas	6.5%	6.5%
Uri Zuk	5%	5%
Oren Duanias	3%	3%
Eyal Duanias	2%	2%
	100%	**100%**

Moshe Zuk was the ultimate controlling party of the Organisation as at 31 December 2019 and 2018.

The Organisation's office is located at 11 Saakadze street, 2nd pass, Tbilisi, Georgia.

B) CHANGES IN GEORGIAN LEGISLATION

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

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

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

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

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

2. BASIS OF PREPARATION (CONTINUED)

BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost basis.

GOING CONCERN

These financial statements have been prepared on the assumption that the Organisation is a going concern and will continue its operations for the foreseeable future. The management believes that the going concern assumption is appropriate for the Organisation.

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

New standards impacting the Organisation that will be adopted in the annual financial statements for the year ended 31 December 2019, and which have given rise to changes in the Organisation's accounting policies are:

- IFRS 16 Leases (IFRS 16) and
- IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23)

Details of the impact IFRS 16 have had are given in Note 22. Other new and amended standards and Interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Organisation as they are either not relevant to the Organisation's activities or require accounting which is consistent with the Organisation's current accounting policies.

In IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23) clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

b) New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Organisation has decided not to adopt early. The most significant of these 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 Organisation is currently assessing the possible impact of the new standard on its financial statements.

Other

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

MEASUREMENT OF EXPECTED CREDIT LOSSES

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

- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- Establishing forward-looking scenarios: When measuring ECL the Organisation uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

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

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

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

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

TAXATION

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

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

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

GENERAL OBJECTIVES, POLICIES AND PROCESSES

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

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

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

CREDIT RISK

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

	31 December 2019	31 December 2018
Cash and cash equivalents (excluding cash on hand)	2,676,382	2,332,768
Loans to customers	33,846,448	39,933,649
	36,522,830	**42,266,417**

LIQUIDITY RISK

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

In order to manage liquidity risk, the Organisation performs regular monitoring of future expected cash flows, which is a part of assets/liabilities management process. An analysis of the liquidity and interest rate risks is presented in the following tables. The presentation below is based upon the information provided by key management personnel of the Organisation.

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

Financial liabilities	Up to 1 year	1 year to 5 years	Total
Borrowings	7,946,939	-	**7,946,939**
Subordinated Borrowings	3,380,760	14,563,590	**17,944,350**
Lease liabilities	839,998	2,982,600	**3,822,598**
Other liabilities	1,703,427	-	**1,703,427**
	13,871,124	**17,546,190**	**31,417,314**

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

All financial liabilities as at 31 December 2018 are up to one year.

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

- **CURRENCY RISK**

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

Currency risk of financial assets and liabilities as at 31 December 2019 can be presented as follows:

Financial assets	**GEL**	**USD**	**Total**
Cash and cash equivalents	2,322,943	449,931	**2,772,874**
Loans to customers	33,769,388	77,060	**33,846,448**
Total financial assets	**36,092,331**	**526,991**	**36,619,322**
Financial liabilities	**GEL**	**USD**	**Total**
Borrowings	-	7,946,939	**7,946,939**
Subordinated Borrowings	-	9,090,214	**9,090,214**
Lease liabilities	459,555	2,724,999	**3,184,554**
Other liabilities	1,372,446	330,981	**1,703,427**
Total financial liabilities	**1,832,001**	**20,093,133**	**21,925,134**
Open balance sheet position	**34,260,330**	**(19,566,142)**	**14,694,188**

Currency risk of financial assets and liabilities as at 31 December 2018 can be presented as follows:

Financial assets	**GEL**	**USD**	**Total**
Cash and cash equivalents	2,264,924	76,840	**2,341,764**
Loans to customers	39,534,000	399,649	**39,933,649**
Total financial assets	**41,798,924**	**476,489**	**42,275,413**
Financial liabilities	**GEL**	**USD**	**Total**
Borrowings	-	14,434,665	**14,434,665**
Subordinated Borrowings	-	7,148,561	**7,148,561**
Other liabilities	1,246,064	133,550	**1,379,614**
Total financial liabilities	**1,246,064**	**21,716,776**	**22,962,840**
Open balance sheet position	**40,552,860**	**(21,240,287)**	**19,312,573**

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

The following table details the Organisation's sensitivity to 20% increase and decrease in the foreign currency exchange rates against GEL and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the year for 20% change in foreign currency rates. Impact on the statement of comprehensive income and equity based on financial instrument values as at 31 December 2019 and 2018 can be presented as follows:

	(GEL / USD)	
Sensitivity of the fluctuation of the market exchange rates	**2019**	**2018**
20% increase	(3,302,032)	(4,248,057)
20% decrease	3,302,032	4,248,057

- **INTEREST RATE RISK**

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

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

MANAGEMENT OF CAPITAL

The Organisation's objectives when maintaining capital are:

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

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

5. OTHER CONTRIBUTIONS BY OWNERS

	2018
Income from sale of portfolio	**34,134,929**
Cost of sale:	**17,593,532**
Gross portfolio	34,134,929
Impairment	(11,994,007)
Other (interest income adjustment according IFRS 9)	(4,547,390)
Gain from sale of portfolio	**16,541,397**

On 30 November 2018 Organisation sold the loan portfolio with total amount of GEL34,134,929 to related party – Euro Credit + LLC. Euro Credit + repaid its payable by offsetting the borrowings (with amount of selling price) with the Organisation (see note 12). The major part of sold portfolio was comprised by overdue loans.

6. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash on hand	96,492	8,996
Cash in bank in Georgian Lari	1,910,228	2,117,893
Cash in bank in foreign currencies	375,231	74,349
Cash in transit	390,923	140,526
	2,772,874	**2,341,764**

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

7. LOANS TO CUSTOMERS

	31 December 2019	31 December 2018
Gross loans to customers	47,199,673	47,193,403
Less: allowance for impairment losses	(13,353,225)	(7,259,754)
Gross loans to customers	**33,846,448**	**39,933,649**

Analysis by credit quality of the originated loans to customers according to the agreement as at 31 December 2019:

	31 December 2019		
Credit quality of loans to customers	**Gross Loan**	**ECL**	**Net Loan**
Loans without individual sign of impairment	26,804,567	(2,833,282)	23,971,285
less than 30 days overdue	2,472,404	(402,523)	2,069,881
30 to 60 days overdue	908,732	(225,203)	683,529
60 to 90 days overdue	584,053	(196,277)	387,776
Over 90 days	12,149,895	(7,517,209)	4,632,686
Restructured (Less than 90)	1,086,433	(218,747)	867,686
Restructured (Over 90 Days)	3,193,589	(1,959,984)	1,233,605
	47,199,673	**(13,353,225)**	**33,846,448**

7. LOANS TO CUSTOMERS (CONTINUED)

Analysis by credit quality of the originated loans to customers according to the agreement as at 31 December 2018:

	31 December 2018		
Credit quality of loans to customers	**Gross Loan**	**ECL**	**Net Loan**
Loans without individual sign of impairment	23,459,451	(2,099,102)	21,360,349
Less than 30 days overdue	7,009,575	(850,825)	6,158,750
30 to 60 days overdue	2,687,813	(470,279)	2,217,534
60 to 90 days overdue	1,645,119	(387,755)	1,257,364
Over 90 days	5,610,798	(2,540,645)	3,070,153
Restructured (Less than 90)	5,302,165	(260,416)	5,041,749
Restructured (Over 90 Days)	1,478,482	(650,732)	827,750
	47,193,403	**(7,259,754)**	**39,933,649**

The Organisation has established internal policy for issuing collateralised loans. Loans are pledged with vehicles. Requirements for collateral are determined by using LTV (Loan to Value) ratio (Maximum ratio is 85% as of NBG).

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**
At 31 December 2018	**3,139,841**	**928,536**	**3,191,377**	**7,259,754**
Transfer to Stage 1	1,188,120	(484,364)	(703,756)	-
Transfer to Stage 2	(67,443)	84,404	(16,961)	-
Transfer to Stage 3	(284,613)	(416,570)	701,183	-
Loan impairment charge for the period	(544,613)	332,735	7,040,396	**6,828,518**
Write off for the year	-	-	(735,047)	**(735,047)**
At 31 December 2019	**3,431,292**	**444,741**	**9,477,192**	**13,353,225**

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**
At 1 January 2018 by IAS 39				-
Changes due to implementation IFRS 9				16,306,268
At 1 January 2018 by IFRS 9	**4,933,500**	**1,515,472**	**9,857,296**	**16,306,268**
Transfer to Stage 1	109,284	(91,957)	(17,327)	-
Transfer to Stage 2	(593,455)	593,598	(143)	-
Transfer to Stage 3	(2,043,584)	(4,797)	2,048,381	-
Loan impairment charge for the period	734,096	(1,083,780)	3,506,765	**3,157,081**
Write off for the year	-	-	(209,588)	**(209,588)**
Sold Loans During the year	-	-	(11,994,007)	**(11,994,007)**
At 31 December 2018	**3,139,841**	**928,536**	**3,191,377**	**7,259,754**

8. PROPERTY AND EQUIPMENT

Historical cost	Office equipment	Leasehold improvements	Other	Total
At 1 January 2018	**29,145**	**-**	**-**	**29,145**
Additions	174,293	126,969	-	**301,262**
At 31 December 2018	**203,438**	**126,969**	**-**	**330,407**
Additions	189,733	144,122	17,773	**351,628**
At 31 December 2019	**393,171**	**271,091**	**17,773**	**682,035**
Accumulated depreciation				
At 1 January 2018	**(1,519)**	**-**	**-**	**(1,519)**
Depreciation charge for the year	(21,338)	(19,045)	-	**(40,383)**
At 31 December 2018	**(22,857)**	**(19,045)**	**-**	**(41,902)**
Depreciation charge for the year	(75,976)	(33,425)	(2,140)	**(111,541)**
At 31 December 2019	**(98,833)**	**(52,470)**	**(2,140)**	**(153,443)**
Net book value				
At 31 December 2018	**180,581**	**107,924**	**-**	**288,505**
At 31 December 2019	**294,338**	**218,621**	**15,633**	**528,592**

9. RIGHT-OF-USE ASSETS

The Organisation adopted IFRS 16 with a transition date of 1 January 2019. The Organisation has chosen not to restate comparatives on adoption of standard, and therefore, the revised requirements are not reflected in the prior year financial statements. These changes have been processed at the date of initial application (i.e. 1 January 2019) and does not require to recognise the effect of change in the opening equity balances. Details of the impact IFRS 16 have had are given in Note 22.

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

	Right-off-use assets
At 1 January 2019	**1,415,004**
New leases	2,531,278
Amortisation	(480,610)
At 31 December 2019	**3,465,672**

Lease liabilities can be presented as follows:

	Lease liabilities
At 1 January 2019	**1,415,004**
New leases	2,177,146
Interest expense	193,961
Lease payments	(638,044)
Foreign exchange movements	36,487
At 31 December 2019	**3,184,554**

10. TAX ASSET

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

11. TAXATION

Temporary differences at a rate of 15% due to:	At 1 January 2018	Credited (charged) to the Income Statement	At 31 December 2018	Credited (charged) to the Income Statement	At 31 December 2019
Loans to customers	**2,592,458**	(1,364,005)	**1,228,453**	(495,512)	**732,941**
Property and equipment	-	(43,276)	**(43,276)**	(36,013)	**(79,289)**
Right-of-use Assets	-	-	-	(519,851)	**(519,851)**
Lease liabilities	-	-	-	477,683	**477,683**
Other liabilities	-	-	-	20,648	**20,648**
Tax loss carry forward	-	-	-	944,909	**944,909**
Deferred tax asset	**2,592,458**	**(1,407,281)**	**1,185,177**	**391,864**	**1,577,041**
Unrecognised temporary differences					
Loans to customers	**(2,445,940)**	1,364,005	**(1,081,935)**	348,994	**(732,941)**
Tax loss carry forward	-	-	-	(715,622)	**(715,622)**
Net deferred tax asset	**146,518**	**(43,276)**	**103,242**	**25,236**	**128,478**

Deferred tax is recognised only in respect of those assets, which the management believes will be utilised during next 3 years.

Income tax expense comprises the following:

	2019	2018
Current income tax	-	(3,067,480)
Effect of temporary differences	25,236	(43,276)
Income tax benefit/(expense)	**25,236**	**(3,110,756)**

The tax effects of the movements in temporary differences recorded at the rate of 15% are as follows:

	2019	2018
Profit before income tax	**1,711,918**	**14,295,885**
Applicable tax rate	15%	**15%**
Theoretical income tax expense	**(256,788)**	**(2,144,383)**
Effect of unrecognised tax asset	(715,622)	(1,081,935)
Effect of previously unrecognised tax asset	348,994	-
Effect of permanent differences	648,652	115,562
Income tax benefit/(expense)	**25,236**	**(3,110,756)**

12. BORROWINGS AND SUBORDINATED BORROWINGS

Borrowings as at 31 December 2019 can be presented as follows:

	Interest rate	Maturity date	Currency	31 December 2019 Originated borrowings	Accrued Interest
Euro Credit +	24%	3-Feb-20	USD	1,412,712	7,431
Tom Holdings Ltd	12%	31-Jul 2020	USD	1,433,490	-
Ronni Biram Investments Ltd	12%	31-Jul-2020	USD	1,433,910	-
WGH Georgia Investments Ltd	20%	On demand	USD	3,649,398	9,998
				7,929,510	**17,429**

Loan from WGH Georgia Investments Ltd is on demand and lender can require payment of the loan in full at any time. As disclosed in Note 20 WGH Georgia Investments Ltd and Organisation are Entities under common control.

Borrowings as at 31 December 2018 can be presented as follows:

	Interest rate	Maturity date	Currency	31 December 2018 Originated borrowings	Accrued Interest
Euro Credit +	24%	3-Feb-20	USD	12,487,537	1,947,128
				12,487,537	**1,947,128**

Subordinated borrowings for 31 December 2019 can be presented as follows:

	Interest rate	Maturity date	Currency	31 December 2019 Originated borrowings	Accrued interest
Euro Credit +	24%	1-Dec-24	USD	3,752,973	792,134
Euro Credit +	24%	1-Dec-24	USD	3,752,973	792,134
				7,505,946	**1,584,268**

Subordinated borrowings for 31 December 2018 can be presented as follows:

	Interest rate	Maturity date	Currency	31 December 2018 Originated borrowings	Accrued interest
Euro Credit +	24%	1-Dec-24	USD	3,502,879	71,401
Euro Credit +	24%	1-Dec-24	USD	3,502,879	71,402
				7,005,758	**142,803**

The principal of the Subordinated borrowings should be repaid at the end of the maturity date, interest on the loans is payable on a monthly basis.

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

	2019	2018
At the beginning of the year	21,583,226	62,245,777
Cash flows	(10,150,288)	(19,557,542)
Non-cash flows:		
Interest accruing in period	3,662,432	10,701,137
Offsetting borrowings and loan portfolio (Note 5)	-	(34,134,929)
Effects of foreign exchange	1,941,783	2,328,783
At the end of the year	**17,037,153**	**21,583,226**

13. OTHER LIABILITIES

	31 December 2019	31 December 2018
Short-term lease payables*	1,160,982	826,000
Other financial liabilities	542,445	553,614
	1,703,427	**1,379,614**

*Short-term lease payables are comprised by leases with a duration of 12 months or less. Additional information is disclosed in Note 21.

14. SHARE CAPITAL

Shareholders	Share %	31 December 2019	31 December 2018
Zuk China Stone Works JSC	75.51%	755,100	377,550
D. Mody Properties LTD	7.99%	79,900	39,950
Iosef Reuven Grenikas	6.5%	65,000	32,500
Uri Zuk	5%	50,000	25,000
Oren Duanias	3%	20,000	10,000
Eyal Duanias	2%	30,000	15,000
	100%	**1,000,000**	**500,000**

To fulfill the requirement of NBG related with minimal amount of share capital of MFOs, on 28 June 2019 shareholders of the Organisation made contribution and increased share capital with GEL500,000.

15. OTHER INCOME

	2019	2018
Penalties and fines	5,263,999	6,641,720
Income from early payment commission	242,147	266,303
Other	256,278	672,395
	5,762,424	**7,580,418**

16. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Marketing cost	(957,475)	(995,287)
Legal Expenses	(765,084)	(1,073,733)
Depreciation and amortisation	(592,151)	(40,383)
Rent expense	(575,483)	(997,387)
IT Consulting Service	(497,808)	(308,350)
Business trips	(288,740)	(253,545)
Communication	(270,942)	(165,693)
Repossessed cars expenses	(248,140)	(694,146)
Office expense	(231,795)	(395,839)
Security	(179,843)	(179,023)
Application inspection expenses	(170,664)	(376,512)
Fuel	(145,768)	(257,414)
Consulting and other professional services*	(145,633)	(663,890)
Utilities	(54,977)	(56,627)
Bank fees	(35,410)	(44,795)
Other	(334,566)	(255,547)
	(5,494,479)	**(6,758,171)**

*Consulting services include audit fees with total amount of GEL66,790 and GEL69,686 for the years ended 31 December 2019 and 2018, respectively.

The Organisation has made optimisation of costs to repossessed cars expenses and consulting and other professional services by reallocating some responsibilities to their employees.

17. SALARIES AND OTHER EMPLOYEE BENEFITS

	2019	2018
Salaries	(4,701,847)	(4,583,163)
Other benefits	(246,087)	(504,171)
	(4,947,934)	**(5,087,334)**

18. OTHER EXPENSES

	2019	2018
Investor research expenses	(408,792)	(133,550)
Other	(74,382)	-
	(483,174)	**(133,550)**

On 1 September 2018 the agreement was signed between the Organisation and Zuk China Stone Limited to provide financial services related with research of investors for the Organisation.

19. COMMITMENTS AND CONTINGENCIES

LITIGATION

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

Legal proceedings against Organisation's customers unable to repay loans

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

As it is not certain that all the customers will meet the repayment obligations, the Organisation recognises provision for impairment for such loans, as disclosed in Note 7.

19. COMMITMENTS AND CONTINGENCIES (CONTINUED)

MANAGEMENT REPORT

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

20. TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

Transactions with related parties as at 31 December 2019 can be presented as follows:

Financial Statement caption	Shareholders	Key management	Entity under common control
Borrowings	-	-	5,079,539
Subordinated borrowings	-	-	9,090,214
Other liabilities	-	-	1,387,744
Other assets	-	-	68,418
General and administrative expenses	-	-	(42,183)
Salaries and other employee benefits	-	(182,625)	-
Interest expense	-	-	(3,032,953)
Financial service	(408,792)	-	-

Transactions with related parties as at 31 December 2018 can be presented as follows:

Financial Statement caption	Shareholders	Key management	Entity under common control
Borrowings	-	-	14,434,665
Subordinated borrowings	-	-	7,148,561
Other liabilities	-	-	995,526
General and administrative expenses	(160,985)	-	(695,548)
Salaries and other employee benefits		(396,368)	-
Interest expense	-	-	(10,701,137)
Financial service	(133,550)	-	-

In 2018 loan portfolio was sold to related party (detailed information is disclosed in Note 5).

21. EVENTS AFTER THE REPORTING PERIOD

POTENTIAL EFFECTS OF THE CORONAVIRUS OUTBREAK

At the end of 2019 New Corona virus (COVID-19) was spread in China. Cases were reported to the World Health Organisation on 31 December 2019. However, announcement of coronavirus as a global health emergency was not made until 31 January 2020, as significant development and spread of the coronavirus did not take place until January 2020.

The World Health Organization has declared the rapidly spreading coronavirus outbreak a pandemic as of 11 March 2020.

As of 31 March 2020, the Government of Georgia announced state of emergency for the reason to prevent spreading the virus. As of 31 March 2020, quarantine regime activated in Georgia. As a result, traveling within and between cities and municipalities on the territory of Georgia was significantly restricted. Also, restrictions were imposed on economic activities for many sectors.

From 24 May 2020, the Government of Georgia cancelled state of emergency and quarantine. From 8 June 2020 all economic activities are allowed with the social distancing and with using facemasks in accordance with the recommendations of the Ministry of Health.

The effects of the coronavirus may be very wide spread and relate to many industries. Coronavirus may affect entities in nearly every sector, due to the following impacts:

- Reduced consumer demand for goods and services due to lost income and/or restrictions on consumers' ability to move freely;
- Lack of investment in capital improvements and construction reducing demand for many goods and services;
- Reduction in market prices for commodities and financial assets, including equity and debt instruments; and
- Disruption of global supplies chains due to restrictions placed on the movement of people and goods.

On the financial statement approval date, the exact effects of coronavirus cannot be made by the management, as time elapses and the effects of the outbreak change and evolve, but the precise effects can be the following:

Impairment of loans issued as a result of reduction in solvency of the customers.

BORROWINGS AND SUBORTINATED BORROWINGS

On 12 March 2020 borrowings, short-term lease liabilities and interest on subordinated borrowings with Euro Credit + were refinanced as a new subordinated loan amounting GEL4,328,836 with maturity of six years.

On July 2020 the Organisation has fully repaid the borrowings from Tom Holdings Ltd and Ronni Biram Investments ltd.

22. CHANGES IN ACCOUNTING POLICIES

The Organisation adopted IFRS 16 with a transition date of 1 January 2019. The Organisation has chosen not to restate comparatives on adoption of standard, and therefore, the revised requirements are not reflected in the prior year financial statements. These changes have been processed at the date of initial application (i.e. 1 January 2019) and does not require to recognise the effect of change in the opening equity balances.

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 Organisation does not have significant leasing activities acting as a lessor.

22. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Transition Method and Practical Expedients Utilised

The Organisation 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 Organisation applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

(a) 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;

(b) Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Organisation 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 Organisation recognises right-of-use assets and lease liabilities for all leases.

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

Classification under IAS 17	Right-of-use assets	Lease liabilities
Operating leases	Head Office, branches, service centre space and parkings: 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 Organisation's incremental borrowing rate as at 1 January 2019. The Organisation'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 were 7,21% and 12,38% for contracts in USD and GEL, respectively.

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

		31 December 2018	IFRS 16	1 January 2019
Assets				
Right-of-use assets	(a)	-	1,415,004	1,415,004
Liabilities				
Lease liabilities	(b)	-	1,415,004	1,415,004

(a) Adjustment of Right-of-use asset represents the effect of agreements classified as operating leases in the previous accounting period;

(b) Adjustment of Lease liabilities represents the effect of agreements classified as operating leases in the previous accounting period.

The following table reconciles the minimum lease commitments disclosed in previous annual financial statements to the amount of lease liabilities recognised on 1 January 2019:

	1 January 2019
Minimum operating lease commitment at 31 December 2018	**-**
Effect of changes in agreement terms	1,750,976
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(335,972)
Lease liability as at 1 January 2019	1,415,004

23. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS

INITIAL RECOGNITION OF FINANCIAL INSTRUMENTS

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

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

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

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

FINANCIAL ASSETS

Classification and subsequent measurement

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

FINANCIAL ASSETS AT AMORTISED COST

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

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

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

23. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Organisation's all financial assets are measured at amortised cost, except Derivative financial assets.

BUSINESS MODEL ASSESSMENT

There are three business models available under IFRS 9:

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

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

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

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

23. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERECOGNITION OF FINANCIAL ASSETS

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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

Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

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

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

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

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

23. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTEREST INCOME RECOGNITION

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

Definition of default

The Organisation recognizes default in the following cases:

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

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

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

Significant increase in credit risk

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

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

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

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

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

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

23. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Forward-looking information

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

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

The Organisation 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 analysed:

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

Measurement of ECL

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

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

Probability of default (PD)

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

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

PDs are calculated based on three-year average and then 1-year and lifetime PDs are derived by extrapolating using migration matrices.

Exposure at default (EAD)

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

Loss given default (LGD)

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

23. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL LIABILITIES

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

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

DERECOGNITION OF FINANCIAL LIABILITIES

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

OFFSETTING

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

FOREIGN CURRENCY TRANSLATION

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

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

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

Table below presents the closing exchange rates by the National Bank of Georgia as at 31 December 2019 and 2018:

	USD / GEL
Exchange rate as at 31 December 2019	2.8677
Exchange rate as at 31 December 2018	2.6766

23. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, and all bank placements or receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents.

LOANS TO CUSTOMERS AND OTHER RECEIVABLES

Loans to customers and other receivables included in other assets in the 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.

PROPERTY AND EQUIPMENT

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

Historical cost	Useful life (years)
Leasehold improvements	10
Office equipment	5
Other	5

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use.

BORROWINGS AND SUBORDINATED BORROWINGS

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

The subordinated borrowings represent the obligations that rank lower than all other loans and securities with respect to the claim on a firm's assets. Therefore, if the borrower defaults, the creditors of subordinated debt will be compensated after all other debt holders are paid in full.

SHARE CAPITAL

Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

DIVIDENDS

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note.

23. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES

IFRS 16 was adopted on 1 January 2019 without restatement of comparative figures, therefore prior year financial statements are not restated. The following policies apply subsequent to the date of initial application, 1 January 2019.

Identifying the lease

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

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

Initial recognition

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

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

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

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

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

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

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

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

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

23. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TAXATION

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in Georgia and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rate (and laws) that has been enacted or substantially enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity where there is an intention to settle the balances on a net basis.

SALARIES AND OTHER EMPLOYEE BENEFITS

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

PROVISIONS

Provisions are recognized when the Organisation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Organisation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

EVENTS AFTER THE REPORTING PERIOD

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