Microfinance Organisation Continental City Credit LLC

Financial statements

Year ended 31 December 2019
together with independent auditor's report

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Independent auditor's report

To the Participant and Supervisory Board of
Microfinance Organization Continental City Credit LLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Microfinance Organization Continental City Credit LLC (the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Other information included in the Company's 2019 Annual Report

Other information consists of the information included in the Company's 2019 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the Annual Report and we do not express any form of assurance conclusion thereon in our report on the audit of the financial statements.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and Supervisory Board 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Supervisory Board is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Supervisory Board 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.

Report in accordance with the requirements of Article 7, paragraph 10 of the Georgian Law on Accounting, Reporting and Auditing

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Management report for the financial year for which the financial statements are prepared is consistent with the financial statements; and The Management report includes the information required by the Article 7 of the Georgian Law on Accounting, Reporting and Auditing and complies with respective regulatory normative acts.

Ruslan Khoroshvili

On behalf of EY LLC

15 June 2020

Tbilisi, Georgia

Statement of financial position

As at 31 December 2019

(in thousands of Georgian Lari)

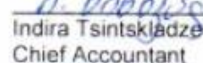
	Notes	31 December 2019	31 December 2018	1 January 2018
Assets				
Cash and cash equivalents	6	512	1,334	907
Loans to customers	7	1,595	4,812	10,589
Repossessed collateral*	7	1,456	1,254	1,748
Property and equipment	8	94	342	284
Intangible assets		10	14	16
Current income tax assets		–	109	–
Deferred income tax asset		–	–	979
Other assets*	9	98	490	1,348
Total assets		**3,765**	**8,355**	**15,871**
Liabilities and equity				
Liabilities				
Borrowed funds	10	1,937	8,162	7,581
Current income tax liability		–	–	215
Provisions		–	–	5,939
Other liabilities	11	240	280	170
Total liabilities		**2,177**	**8,442**	**13,905**
Equity				
Charter capital	12	11,445	9,446	8,429
Accumulated losses		(9,857)	(9,533)	(6,463)
Total equity		**1,588**	**(87)**	**1,966**
Total liabilities and equity		**3,765**	**8,355**	**15,871**

* *Marked items reflect the reclassification adjustments to comparative financial information made for changes in presentation as described in Note 2.*

Signed and authorized for release on behalf of the management:

Tamaz Mikadze
Director

15 June 2020



Indira Tsintskladze
Chief Accountant

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2019

(in thousands of Georgian Lari)

	Notes	2019	2018
Interest income calculated using effective interest rate method	13	921	2,768
Interest expense	13	(333)	(736)
Net interest income before impairment losses on interest bearing assets		**588**	**2,032**
Impairment losses on interest bearing assets	7	(19)	(977)
Net interest income		**569**	**1,055**
Net loss on foreign exchange operations		(144)	(329)
Fee and commission expense		(7)	(122)
Gain from sale of repossessed collateral*	7	121	18
Other income*	14	29	136
Net non-interest loss		**(1)**	**(297)**
Operating income		**568**	**758**
Provisions		–	(914)
Impairment on other financial assets	9	(40)	–
Operating expenses	15	(852)	(1,814)
Loss before income tax		**(324)**	**(1,970)**
Income tax expense		–	(1,028)
Loss for the year		**(324)**	**(2,998)**
Other comprehensive income		–	–
Total comprehensive loss for the year		**(324)**	**(2,998)**

** Marked items reflect the reclassification adjustments to comparative financial information made for changes in presentation as described in Note 2.*

Statement of changes in equity

For the year ended 31 December 2019

(in thousands of Georgian Lari)

	Notes	*Charter capital*	*Accumulated losses*	*Total equity*
1 January 2018		**8,429**	**(6,535)**	**1,894**
Total comprehensive loss		–	(2,998)	**(2,998)**
Conversion of borrowed funds into charter capital	12	1,017	–	**1,017**
31 December 2018		**9,446**	**(9,533)**	**(87)**
Total comprehensive loss		–	(324)	**(324)**
Conversion of borrowed funds into charter capital	12	1,999	–	**1,999**
31 December 2019		**11,445**	**(9,857)**	**1,588**

The notes on pages 5-29 form an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2019

(in thousands of Georgian Lari)

	Note	2019	2018
Cash flows from operating activities			
Interest received		1,138	2,914
Interest paid		(334)	(749)
Fee and commission paid		(7)	(122)
Realised gains less losses from dealing in foreign currencies		(13)	–
Operating expenses paid		(695)	(1,599)
Other income received		16	116
Income tax paid		–	(361)
Cash flows from operating activities before changes in operating assets and liabilities		**105**	**199**
Changes in operating assets and liabilities			
Net decrease in loans to customers		3,113	4,597
Net decrease in repossessed collateral*		316	549
Net decrease in other assets*		224	648
Net cash from operating activities		**3,758**	**5,993**
Cash flows from investing activities			
Sale of property and equipment		13	38
Net cash from investing activities		**13**	**38**
Cash flows from financing activities			
Proceeds from borrowed funds	10	–	286
Repayment of borrowed funds	10	(4,684)	(5,897)
Net cash used in financing activities		**(4,684)**	**(5,611)**
Net (decrease)/increase in cash and cash equivalents		**(913)**	**420**
Cash and cash equivalents, at beginning of the year	6	1,334	907
Effect of foreign exchange rate changes on cash and cash equivalents		91	7
Cash and cash equivalents, at end of the year	6	**512**	**1,334**

** Marked items reflect the reclassification adjustments to comparative financial information made for changes in presentation as described in Note 2.*

(in thousands of Georgian Lari)

1. Organisation

Microfinance Organisation Continental City Credit LLC (the "Company") was incorporated in Georgia on 6 March 2012. The Company is regulated by the National Bank of Georgia (the "NBG") and conducts its business in accordance with the Georgian Law on Microfinance Organisations. The Company possesses a license for microfinance operations from the National Bank of Georgia Number 583 granted on 5 May 2012. Company's identification number is 404932891.

Company's primary business consisted of disbursing mortgage and pawnshop loans.

The registered office of the Company is located on Beliashvili str. 145, Tbilisi, Georgia.

As at 31 December 2019 and 2018, 100% immediate owner of the Company was CC Continental City Capital LTD (Equfin Holdings) (the "Parent") incorporated in Cyprus.

As at 31 December 2019 and 2018 ultimate individual shareholder having 100% control over CC Continental City Capital LTD (Equfin Holdings) (the "Parent") was Rati Chelidze.

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

These financial statements have been prepared on the historical cost basis except for the measurement at fair value of certain financial instruments, as explained in the accounting policies below.

Company's functional and presentation currency is the Georgian Lari (GEL). Financial information is presented in GEL rounded to the nearest thousands, unless otherwise indicated.

Reclassifications

Due to the increase in relative size of the repossessed collateral and gains from sales of repossessed collateral, the Company presented it as a separate line in the statement of financial position and statement of profit or loss and other comprehensive income. The following reclassifications have been made to 2018 and 2017 balances and results of operations to conform to the 2019 presentation:

Statement of financial position as at 31 December 2018	***As previously reported***	***Reclassification***	***As reclassified***
Other assets	1,744	(1,254)	490
Repossessed collaterals	−	1,254	1,254

Statement of financial position as at 1 January 2018	***As previously reported***	***Reclassification***	***As reclassified***
Other assets	3,096	(1,748)	1,348
Repossessed collaterals	−	1,748	1,748

Statement of profit or loss and other comprehensive income for the year ended 31 December 2018	***As previously reported***	***Reclassification***	***As reclassified***
Gain from sale of repossessed collateral	−	18	18
Other income	154	(18)	136

The Company separately presented cash movements related to repossessed collateral in the statement of cash flow for the year ended 31 December 2018 accordingly.

(in thousands of Georgian Lari)

3. Summary of accounting policies

Changes in accounting policies

The Company has applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases − Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the modified retrospective method of adoption, with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

Application of IFRS 16 does not have a significant impact on the amounts recognised in the Company's financial statements, as all of the Company's lease arrangements fall under short-term lease recognition exemption.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex environment, it assessed whether the Interpretation had an impact on its financial statements. Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions. The Interpretation did not have an impact on the financial statements of the Company.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

The amendments did not have an impact on the financial statements of the Company.

No other standard or interpretation that became effective in 2019 had any material impact on the financial statements.

(in thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Financial assets and liabilities

Initial recognition

The Company recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

The Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

The Company classifies and measures its derivative and trading portfolio at FVPL. The Company may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Loans and receivables at amortised cost

The Company only measures loans to customers and other financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- 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 (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Company determines its business model at the level that best reflects how it manages its financial assets to achieve its business objective.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable 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 entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

(in thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Loans and receivables at amortised cost (continued)

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Company assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Renegotiated loans

The Company from time to time may extend the payment arrangements and the agreement of new loan conditions with its borrowers.

The Company derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Company considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Company also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 until customer fully repays amount overdue.

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

(in thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Write off of loans and receivables

Loans and receivables are written off against the allowance for impairment losses when deemed uncollectible. Loans and receivables are written off after management has exercised all possibilities available to collect amounts due to the Company. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in profit or loss in the period of recovery.

Derecognition of financial liabilities

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

Offsetting

Financial assets and financial 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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and cash in bank with original maturity of less or equal to 90 days.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. The Company views the repossessed assets as a form of settlement of amounts due under the defaulted loan and that it is an asset acquired and held for sale in the ordinary course of business.

Repossessed assets are initially recognized at cost and subsequently measured at the lower of carrying amount and fair value less costs to sell.

Property and equipment

Initial cost of property and equipment is assessed based on actual expenses for their acquisition that comprise purchase price, including non-refundable purchase taxes and any directly attributed costs of bringing the assets to its working condition and location for intended use. Subsequent to initial recognition property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

(in thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Property and equipment (continued)

Depreciation is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings	2%
Computers	25%
Furniture and office fixtures	25%
Vehicles	20%
Leasehold improvements	20%-30%
Other	25%

Leasehold improvements are amortized over the life of the related leased asset or the lease term, if lower. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Derecognition of intangible assets

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

Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When 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.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Georgian tax code.

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholder recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the asset and liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (applicable to undistributed profits) that have been enacted or substantively enacted at the reporting date.

(in thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Operating taxes

Georgia also has various other taxes, which are assessed on the Company's activities. These taxes are included as a component of operating expenses in profit or loss.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

The Company calculates interest revenue on debt financial assets measured at amortized cost by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Company calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest revenue on a gross basis.

Foreign currencies

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

The exchange rates used by the Company in the preparation of the financial statements as at year-end are as follows:

	31 December 2019	***31 December 2018***
GEL / 1 US Dollar	2.8677	2.6766
GEL / 1 Euro	3.2095	3.0701

(in thousands of Georgian Lari)

4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Estimation uncertainty

In the process of applying the Company's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Going concern

The Management of the Company has prepared these financial statements on a going concern basis. In making this judgement the management considered the Company's financial position, current intentions, profitability of operations and access to financial resources.

The Company's loss for the year ended 31 December 2019 amounted to GEL 324 thousand, interest income reduced by 67% and loan portfolio decreased by 67%. As at 31 December 2019 the Company's equity is GEL 1,588 thousand.

The scaling down the Company's operations was in response of changes in the legislation introduced by the National Bank of Georgia. Starting from September 2018, the National Bank of Georgia introduced upper caps of 50% on effective interest rate on loans to customers in addition, the National Bank of Georgia has approved the rules on "Supervision and Regulation of Microfinance Organization Activities" that introduced certain prudential coefficient to be maintained by the microfinance organizations.

Introduction of such restrictions significantly impacted on the profitability of lending activities of the Company. In response to that, the Management of the Company has undertaken certain actions in order to enable the Company to continue as a going concern for the foreseeable future. Such actions included the following:

- The Company no longer issued the loans during 2019. The main source of income for the company is generated through income from the outstanding loan repayments and sales of repossessed properties.
- The Company renegotiated its borrowing arrangements with the Parent by settling certain borrowings through their convertion to its charter capital in 2019 (Note 12).
- The Company's management obtained a letter from the Parent, which indicates that the Parent intends to provide the Company with support necessary for the Company to continue fulfil its liabilities for the foreseeable future at least for 12 months after the date of issuance of these financial statements. The management of the Company evaluated that the Parent has sufficient resources to provide the Company with financial support if necessary.

The Management of the Company is confident that following the above explained actions, the Company will be able to continue as a going concern in the foreseeable future.

Impairment of loans and receivables

The measurement of impairment losses under IFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as GDP growth, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios to derive the economic inputs into the ECL models.

The amount of allowance for loan impairment recognised in statement of financial position as at 31 December 2019 was GEL 2,319 thousand (2018 − GEL 2,296 thousand). More details are provided in Notes 7 and 20.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Estimation uncertainty (continued)

Valuation of repossessed collateral

Repossessed collateral include land and buildings, which are measured at the lower of cost and fair value less cost to sell. Real estate valuations are inherently uncertain and subject to an estimation process. Furthermore, the Company does not involve external valuer. The valuations are performed by the Company's internal experts. The real estate properties are located primarily in Tbilisi, where the secondary market is relatively liquid and comparative information is accessible. The amount of repossessed properties recognized in statement of financial position as at 31 December 2019 was GEL 1,456 thousand (2018 − GEL 1,254 thousand). The Company determined that no repossessed assets exist as at 31 December 2019 for which fair value less costs to less is below cost. Accordingly, no impairment adjustments were recognized in relation to repossessed assets profit or loss for the year ended 31 December 2019. More details are provided in Note 7.

5. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective, with no material effect on the financial statements currently expected:

- IFRS 17 *Insurance Contracts* (effective from 1 January 2023);
- Amendments to IFRS 3 *Definition of a Business* (effective from 1 January 2020);
- Amendments to IAS 1 and IAS 8 *Definition of Material* (effective from 1 January 2020);
- *Interest Rate Benchmark Reform*: Amendments to IFRS 9, IAS 39 and IFRS 7 (effective from 1 January 2020).

No other standard or interpretation issued but not yet effective is expected to have any material impact on the Company's financial statements.

6. Cash and cash equivalents

	31 December 2019	***31 December 2018***
Cash on hand	9	7
Balances with banks on demand and with original maturity up to 90 days	503	1,327
Total cash and cash equivalents	**512**	**1,334**

As at 31 December 2019 and 2018, all cash and cash equivalents relate to stage 1 of ECL assessment. ECLs are immaterial. Company's balances include current accounts at banks in Georgia predominantly rated Baa (Fitch) and are used for the purpose of the daily activities of the Company.

7. Loans to customers and repossessed collateral

Loans to customers comprise the following products:

	31 December 2019	***31 December 2018***
Mortgage loans	1,767	4,177
Payday loans	1,120	1,657
Consumer loans	793	994
Pawnshop loans	234	280
	3,914	**7,108**
Less allowance for expected credit losses	(2,319)	(2,296)
Total loans to customers	**1,595**	**4,812**

(in thousands of Georgian Lari)

7. Loans to customers and repossessed collateral (continued)

An analysis of changes in the ECL in relation to loans to customers during the year ended 31 December 2019 is as follows:

Mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2019	**–**	**–**	**1,287**	**1,287**
Assets repaid	–	–	(306)	**(306)**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	–	–	(197)	**(197)**
Unwinding of discount	–	–	16	**16**
Foreign exchange and other movements	–	–	237	**237**
At 31 December 2019	**–**	**–**	**1,037**	**1,037**

Payday loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2019	**–**	**144**	**573**	**717**
New assets originated or purchased	–	–	–	**–**
Assets repaid	–	(58)	(61)	**(119)**
Assets sold		–	–	**–**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3		(38)	38	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	–	3	146	**149**
Unwinding of discount	–	–	13	**13**
At 31 December 2019	**–**	**51**	**709**	**760**

Consumer and pawnshop loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2019	**74**	**27**	**191**	**292**
New assets originated or purchased	–	–	–	**–**
Assets repaid	(37)	(4)	(41)	**(82)**
Transfers to Stage 2	(1)	1	–	**–**
Transfers to Stage 3	–	(22)	22	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	(24)	–	356	**332**
Write off	–	–	(30)	**(30)**
Foreign exchange and other movements	3	–	7	**10**
At 31 December 2019	**15**	**2**	**505**	**522**

The significant changes in the gross carrying amount of the loan portfolio in 2019 that contributed to the changes in the loss allowance were mostly decreases of gross loan portfolio through scheduled repayments as well as foreign exchange adjustments.

Mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2018	**–**	**–**	**943**	**943**
Assets repaid	–	–	(51)	**(51)**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	–	–	443	**443**
Unwinding of discount	–	–	33	**33**
Foreign exchange and other movements	–	–	(81)	**(81)**
At 31 December 2018	**–**	**–**	**1,287**	**1,287**

(in thousands of Georgian Lari)

7. Loans to customers (continued)

Payday loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**21**	**559**	**368**	**948**
New assets originated or purchased	2	–	–	**2**
Assets repaid	(13)	(147)	(2)	**(162)**
Assets sold	–	–	(669)	**(669)**
Transfers to Stage 2	(4)	4	–	**–**
Transfers to Stage 3	–	(125)	125	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	(6)	(147)	726	**573**
Unwinding of discount	–	–	25	**25**
At 31 December 2018	**–**	**144**	**573**	**717**

Consumer and pawnshop loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**15**	**1**	**23**	**39**
New assets originated or purchased	101	–	–	**101**
Assets repaid	(9)	(1)	(1)	**(11)**
Transfers to Stage 2	(55)	55	–	–
Transfers to Stage 3	–	(42)	42	–
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	20	14	125	**159**
Foreign exchange and other movements	2	–	2	**4**
At 31 December 2018	**74**	**27**	**191**	**292**

The significant changes in the gross carrying amount of the loan portfolio in 2018 that contributed to the changes in the loss allowance were:

- Sale of Stage 3 payday loan portfolio with gross carrying value of GEL 778 thousand;
- Decrease of loan portfolio through scheduled repayments and prepayments.

As at 31 December 2019 and 2018 the Company had no exposures which individually exceeded 10% of the Company's equity.

As at 31 December 2019 and 2018, 100% of the loans are granted to Georgian nationals, which represents a significant geographical concentration in one region.

Modified and restructured loans

The Company derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan.

The table below includes Stage 2 and 3 assets that were modified during the period, with the related modification (loss)/gain incurred by the Company.

	2019	*2018*
Loans modified during the period		
Amortised cost before modification	154	3,221
Modification gain (loss)	–	–

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The mortgage loans are collateralised. The main types of collateral are mostly land and other real estate.

(in thousands of Georgian Lari)

7. Loans to customers (continued)

Collateral and other credit enhancements (continued)

In the absence of collateral or other credit enhancement mechanisms, the allowance for expected credit losses on loans to customers in Stage 3 as at 31 December 2019 and 2018 would be higher by:

	2019	*2018*
Mortgage loans	652	1,535
Total allowance for expected credit losses for loans to customers	**652**	**1,535**

The table below summarizes carrying value of loans to customers analyzed by type of collateral obtained by the Company:

	31 December 2019	*31 December 2018*
Loans collateralized by pledge of real estate	1,767	4,177
Unsecured loans	1,913	2,651
Other collateral	234	280
Less allowance for expected credit losses	(2,319)	(2,296)
Total loans to customers	**1,595**	**4,812**

Collateral and other credit enhancements

During the years ended 31 December 2019 and 2018 the Company received non-financial assets by taking possession of collateral it held as security.

Repossessed assets as at 31 December 2019 and 2018 include land and buildings in the amount of GEL 1,456 thousand and GEL 1,254 thousand, respectively, which are measured at the lower of cost and fair value less cost to sell.

Movement in repossessed collateral was as follows:

	Land and buildings
1 January 2017	**1,748**
Repossessed properties	28
Transfers to property and equipment (Note 8)	(165)
Sold properties	(357)
At 31 December 2018	**1,254**
Repossessed properties	201
Transfers from property and equipment (Note 8)	163
Transfers from investment property	130
Sold properties	(292)
At 31 December 2019	**1,456**

In 2019, the Company recognized in profit or loss gain from sale of repossessed assets of GEL 121 thousand (2018 – GEL 18 thousand).

As at 31 December 2019 and 2018, repossessed assets totaling GEL 595 thousand and GEL 755 thousand, respectively, were pledged as collateral under loans received from financial institution.

(in thousands of Georgian Lari)

8. Property and equipment

Property and equipment comprise:

	Buildings	*Computers*	*Vehicles*	*Furniture and office equipment*	*Leasehold improvements*	*Other*	*Total*
At cost							
31 December 2017	**–**	**159**	**395**	**61**	**175**	**93**	**883**
Additions	–	5	–	–	–	–	**5**
Transfers from repossessed collateral (Note 7)	165	–	–	–	–	–	**165**
Disposals	–	(11)	–	(3)	–	–	**(14)**
31 December 2018	**165**	**153**	**395**	**58**	**175**	**93**	**1039**
Transfers to repossessed assets (Note 7)	(163)	–	–	–	–	–	**(163)**
Disposals	(2)	–	(13)	(8)	–	(5)	**(28)**
31 December 2019	**–**	**153**	**382**	**50**	**175**	**88**	**848**
Accumulated depreciation							
31 December 2017	**–**	**102**	**178**	**54**	**175**	**90**	**599**
Depreciation charge	2	31	74	3	–	–	**110**
Eliminated on disposals	–	(10)	–	(2)	–	–	**(12)**
31 December 2018	**2**	**123**	**252**	**55**	**175**	**90**	**697**
Depreciation charge	–	21	62	2	–	–	**85**
Eliminated on disposals	(2)	–	(13)	(8)	–	(5)	**(28)**
31 December 2019	**–**	**144**	**301**	**49**	**175**	**85**	**754**
Net book value							
As at 31 December 2018	**163**	**30**	**143**	**3**	**–**	**3**	**342**
As at 31 December 2019	**–**	**9**	**81**	**1**	**–**	**3**	**94**

As at 31 December 2019 and 2018 included in property and equipment were fully depreciated assets totaling GEL 498 thousand and GEL 387 thousand, respectively.

9. Other assets

Other assets comprise:

	31 December 2019	*31 December 2018*
Other financial assets		
Accounts receivable	97	333
Allowance for impairment loss	(40)	–
Total other financial assets	**57**	**333**
Other non-financial assets		
Investment property	–	128
Advances paid	41	29
Other	–	–
Total other non-financial assets	**41**	**157**
Total other assets	**98**	**490**

The Company recognized GEL 40 thousand charge on allowance for impairment of other financial assets (2018: nil), in addition Company impaired and has written off receivable in amount of GEL 96 thousand from Financial Sector LLC (2018: nil).

(in thousands of Georgian Lari)

10. Borrowed funds

Borrowed funds comprise:

	31 December 2019	*31 December 2018*
Non-current borrowed funds		
Secured loans from financial institutions	217	594
Unsecured loans from related parties	574	1,641
Total non-current borrowed funds	**791**	**2,235**
Current borrowed funds		
Secured loans from financial institutions	372	129
Unsecured loans from related parties	774	5,798
Total current borrowed funds	**1,146**	**5,927**
Total borrowed funds	**1,937**	**8,162**

In 2019 and 2018 respectively the Parent of the Company made a decision to settle loans disbursed to the Company in the amount of GEL 1,999 thousand and GEL 1,017 thousand by increasing charter capital of the Company (Note 12).

As at 31 December 2019, terms and conditions of outstanding borrowed funds were as follows:

	Currency	*Nominal interest rate*	*Year of maturity*	*31 December 2019*
Secured loans from financial institutions	USD	9%	2023	589
Unsecured loans from related parties	USD	5%	2020	1,348
Total borrowed funds				**1,937**

As at 31 December 2018, terms and conditions of outstanding borrowed funds were as follows:

	Currency	*Nominal interest rate*	*Year of maturity*	*31 December 2018*
Secured loans from financial institutions	USD	10%	2023	723
Unsecured loans from related parties	USD	5%-9%	2019-2023	7,439
Total borrowed funds				**8,162**

Unsecured loans with carrying value of GEL 1,348 (31 December 2018: GEL 7,439) from related parties are convertible to Company's charter capital at any time until their contractual maturity at lender's discretion. No equity component was recognized respect of that convertible instruments under IAS 32 *Financial Instruments: Presentation* requirements.

The table below details changes in the Company's other borrowed funds arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's statement of cash flows as cash flows from financing activities.

	1 January 2019	*Cash receipts*	*Cash repayments*	*Settlement through equity (Note 12)*	*Change in accrued interest*	*Foreign exchange*	*31 December 2019*
Borrowed funds	8,162	–	(4,684)	(1,999)	(1)	459	1,937

	1 January 2018	*Cash receipts*	*Cash repayments*	*Borrowings recognized at modification of loan sales agreement*	*Settlement through equity (Note 12)*	*Change in accrued interest*	*Foreign exchange*	*31 December 2018*
Borrowed funds	7,581	286	(5,897)	6,853	(1,017)	(16)	372	8,162

(in thousands of Georgian Lari)

11. Other liabilities

Other liabilities comprise accounts payable of GEL 123 thousand and advances received of GEL 117 thousand (31 December 2018: accounts payable of GEL 280 thousand).

12. Charter capital and reserves

As at 31 December 2019 and 2018 the Company's total paid in charter capital was GEL 11,445 thousand and GEL 9,446 thousand, respectively.

As described in Note 10, in 2019 and 2018, the Parent of the Company made a decision to settle certain borrowed funds in the amount of GEL 1,999 thousand and 1,017 thousand respectively, by increasing charter capital of the Company.

The owners of the Company are entitled to receive dividends as declared from time to time and at the shareholders meetings of the Company.

In accordance with Georgian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's financial statements prepared in accordance with IFRS.

In 2019 and 2018, Company did not distribute any dividends.

13. Net interest income

	31 December 2019	*31 December 2018*
Financial assets measured at amortized cost		
Loans to customers	912	2,759
Due from financial institutions	9	9
Total interest income calculated using effective interest rate method	**921**	**2,768**
Interest expense on financial liabilities measured at amortized cost		
Borrowed funds	(333)	(736)
Total interest expense	**(333)**	**(736)**
Net interest income before impairment losses on interest bearing assets	**588**	**2,032**

14. Other income

	2019	*2018*
Gain from sale of property plant and equipment	13	38
Income from operating lease	8	74
Other income	8	24
Total other income	**29**	**136**

15. Operating expenses

Operating expenses comprise:

	2019	*2018*
Staff costs	288	829
Loan collection costs	282	155
Depreciation and amortization	85	110
Penalties and fines paid	44	2
Utilities and communication	37	103
Rent	27	242
Professional services	5	241
Marketing and advertising	2	11
Other expenses	82	121
Total operating expenses	**852**	**1,814**

(in thousands of Georgian Lari)

15. Operating expenses (continued)

Auditor's remuneration

Professional services expenses include auditor's remuneration. Remuneration of the Company's auditor for the audit of Company's annual financial statements for the years ended 31 December 2019 and 2018 comprised GEL 64 thousand and GEL 65 thousand, respectively.

16. Commitments and contingencies

In the normal course of business, the Company is a party to financial instruments with on-balance sheet risk in order to meet the needs of their counterparties. These instruments, involving varying degrees of credit risk, are reflected in the statement of financial position.

Legal

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

Taxation

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

In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

As at 31 December 2019 and 2018 management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax positions will be sustained.

17. Transactions with related parties

Related parties include the Parent and members of key management personnel.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effective on the same terms and conditions as transactions between unrelated parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Company had the following balances and transactions with related parties:

	31 December 2019		***31 December 2018***	
	Related party balances	***Total category as per the financial statements caption***	***Related party balances***	***Total category as per the financial statements caption***
Borrowed funds	1,348	**1,937**	7,439	**8,162**
- the Parent (Note 10)	1,348	**–**	7,439	**–**
Other liabilities	–	**240**	97	**280**
- the Parent	–	**–**	97	**–**

(in thousands of Georgian Lari)

17. Transactions with related parties (continued)

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

	31 December 2019		*31 December 2018*	
	Related party transactions	*Total category as per the financial statements caption*	*Related party transactions*	*Total category as per the financial statements caption*
Key management personnel compensation				
- short-term employee benefits	117	**288**	141	**829**

Included in profit or loss for the years ended 31 December 2019 and 2018 are the following amounts which were recognized in transactions with related parties:

	31 December 2019		*31 December 2018*	
	Related party transactions	*Total category as per the financial statements caption*	*Related party transactions*	*Total category as per the financial statements caption*
Interest expense	275	**333**	619	**736**
- the Parent	275	**–**	619	**–**

18. Fair value of financial instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

Cash and cash equivalents − cash and cash equivalents are carried at amortized cost which approximates their current fair value.

Other financial assets and financial liabilities − other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.

Loans to customers and borrowed funds − the estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received/paid discounted at current interest rates of new instruments with similar credit risk and remaining maturity. Discount rates depend on currency, maturity of the instrument and credit risk of the counterparty. For liabilities with demand feature, fair value was determined to be equal to nominal amount.

The Company estimated the fair value of loans to customers and borrowed funds and due to relatively short-term lifetime of the instruments carrying values approximated to fair value.

	Fair value	*31 December 2019*		*31 December 2018*	
	Hierarchy	*Carrying value*	*Fair value*	*Carrying value*	*Fair value*
Loans to customers	3	1,595	1,595	4,812	4,812
Borrowed funds	3	1,937	1,937	8,162	8,162

(in thousands of Georgian Lari)

19. Capital management

The Company's objectives when maintaining capital are:

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

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

	31 December 2019	***31 December 2018***
Total equity	1,588	(87)
Total assets	3,765	8,355
Financial leverage ratio	42.18%	(1.04) %
Minimal requirement	18%	16%

The Company was in breach of the Financial Leverage Ratio set by the National Bank of Georgia as at 31 December 2018. In June 2019, the Company mitigated the breach through conversion of borrowed funds of GEL 1,999 thousand to charter capital (Notes 10, 12).

As at 31 December 2019 Company holds minimum statutory capital requirements of National Bank of Georgia − the minimum cash contribution in the equity no less than GEL 1 million.

20. Risk management policies

Management of risk is fundamental to the Company's business and is an essential element of the Company's operations. The main risks inherent to the Company's operations are those related to the following:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk;

To enable and apply high-performance risk policies, the Company has established a risk management framework, whose main purpose is to protect the Company from unacceptable level of risk and allow it to achieve its performance objectives. Through the risk management framework, the Company manages the following risks:

Credit risk

The Company is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company suspended lending activities in 2018. Credit risk management procedures described below apply to periods before that suspension.

Risk management and monitoring was performed within set limits of authority. These processes were performed by the Credit Committees and the Company's Management Board. Before any application was made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) were reviewed and approved by the Risk Management Department of Head Office. Daily risk management was performed by the Heads of Credit Departments.

The Company structured the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Limits on the level of credit risk by a borrower are approved by the Management Board. Actual exposures against limits are monitored on a regular basis.

(in thousands of Georgian Lari)

20. Risk management policies (continued)

Credit risk (continued)

Impairment assessment

The Company has adopted a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Company combines its financial assets into Stage 1, Stage 2, Stage 3, as described below:

Stage 1	When financial assets are first recognised, the Company recognises an allowance based on 12mECL. Stage 1 financial assets also include facilities where the credit risk has decreased and the financial asset has been reclassified from Stage 2.
Stage 2	When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 includes mortgage, consumer and pawnshop loans overdue from 31 to 90-day arrears and payday loans overdue from 15 to 60 days overdue. Stage 2 loans also include facilities, where the credit risk has improved so that the loan is no longer credit-impaired and the loan has been reclassified from Stage 3.
Stage 3	Loans considered credit-impaired. Stage 3 includes mortgage, consumer and pawnshop loans overdue more than 90-day arrears and more than 60 days in arrears for the payday loans. The Company records an allowance for the LTECL.

The Company considers a financial instrument defaulted and therefore recognises it as Stage 3 (credit-impaired) for ECL calculations, when the borrower becomes 90 days past due on its contractual payments for at least one of the transactions with a counterparty, or there are other indicators of impairment for the mortgage, consumer and pawnshop and 60 days past due for the payday loans.

The Company calculates ECL on a collective basis for all classes of financial assets which it groups into homogeneous portfolios, based on a combination of internal and external characteristics of the assets.

The key elements of the ECL calculations are outlined below:

PD	Is a calculated estimate of the probability of default over a given time interval and is determined based on the risk-segment and the overdue group for a relevant period (12 months or the lifetime of an instrument (Lifetime PD). Values are determined based on internal statistics using migration matrices). Current and expected changes in the macroeconomic situation are used as forecast information. A default may happen over the assessed period, if the financial asset has not been previously derecognised and is still in the portfolio.
EAD	The amount of assets at risk (EAD) is an estimate of the exposure at default.
LGD	Is the level of losses arising in the case where a default occurs and considering time value of money (discounting at effective interest rate). LGD is based on the difference between the contractual cash flows due and those that the Company receives and would expect to receive, taking into account the asset realisation experience. The values of LGD are determined using models developed on the basis of internal statistics.

Definition of default

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. In addition Company considers following factors which indicate default:

- Credit exposures appears in arears by more than 90 days for mortgage, consumer and pawnshop;
- Credit exposures appears in arears by more than 60 days for payday portfolio;
- Bankruptcy proceedings of the borrower have been initiated;
- The Company has initiated court procedures against the borrower;
- Breach of covenants or conditions, unless the Company has decided to waive or modify the covenant or condition;
- Specific information on the client's business or changes in the client's market environment that as or is expected to have a significant negative impact on the future cash flow.

(in thousands of Georgian Lari)

20. Risk management policies (continued)

Credit risk (continued)

The Company considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

PD estimation process

PD estimates are estimates at a certain date, which are calculated based on statistical data. For the purposes of PD calculations, loan portfolio is divided (by each separate product segment) in delinquency buckets, as follows:

- Stage 1 − not overdue loans;
- Stage 1 − loans overdue 1 to 30 days (payday loans − from 1 to 15 days);
- Stage 2 − loans overdue 31 to 60 days (payday loans − 16 -30 days);
- Stage 2 − loans overdue 61 to 90 days;
- Stage 2 − restructured loans overdue less than 90 days (R1);
- Stage 3 − loans overdue more than 90 days; defaulted loans; (payday loans − more than 61 days);
- Stage 3 − restructured loans overdue more than 90 days (R2).

If a counterparty or exposure migrates between buckets, then this will lead to a change in the estimate of the associated PD. PDs are calculated based on two-year average and then PD migration percentage matrixes are averaged for analysis period.

Incorporation of forward-looking information

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

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

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

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 3 years. Macroeconomic factors regularly published by the National Bank of Georgia are applied. Based on this analysis, the Company identified portfolio default correlation with Georgia's real GDP growth rate.

Key drivers	***2020***	***2021***	***2022***
GDP growth, %			
Upside (25% probability)	5.5%	6.0%	5.0%
Base case (50% probability)	4.5%	5.0%	5.0%
Downside (25% probability)	2.5%	3.5%	4.5%

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Company assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

(in thousands of Georgian Lari)

20. Risk management policies (continued)

Credit risk (continued)

Loss given default

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered.

The Company segments loans to customers into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, maturity terms) as well as borrower characteristics.

Loss given default is calculated based on historical defaults and respective recoveries during three years. Historical recovery percentages are discounted cash flow basis using the effective interest rate as the discounting factor.

Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Company's historical experience and expert credit assessment including forward-looking information. If contractual payments are more than 30 days past due (15 days for payday loans) or credit has been renegotiated, Company considers the credit risk is deemed to have increased significantly since initial recognition.

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are mortgages over residential properties or other assets.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and checks the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Credit quality of loans to customers

The following tables provide information on the credit quality of loans to customers as at 31 December 2019 and 2018:

Loans to customers	***Stage 1***	***Stage 2***	***Stage 3***	***Total gross carrying value as at 31 December 2019***
Not overdue	224	–	4	**228**
1 to 15 days overdue	10	–	6	**16**
16 to 30 days overdue	30	–	–	**30**
31 to 60 days overdue	–	35	–	**35**
61 to 90 days overdue	–	–	–	**–**
Restructured loans overdue less than 90 days (R1)	80	250	65	**395**
Loans overdue more than 90 days; defaulted loans	–	–	1,435	**1,435**
Restructured loans overdue more than 90 days (R2)	–	–	1,775	**1,775**
Total loans to customers	**344**	**285**	**3,285**	**3,914**

(in thousands of Georgian Lari)

20. Risk management policies (continued)

Credit risk (continued)

Loans to customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total gross carrying value as at 31 December 2018*
Not overdue	1,008	792	−	**1,800**
1 to 15 days overdue	40	43	−	**83**
16 to 30 days overdue	120	63	−	**183**
31 to 60 days overdue	−	146	−	**146**
61 to 90 days overdue	−	41	245	**286**
Restructured loans overdue less than 90 days (R1)	575	152	12	**739**
Loans overdue more than 90 days; defaulted loans	−	−	2,076	**2,076**
Restructured loans overdue more than 90 days (R2)	−	−	1,795	**1,795**
Total loans to customers	**1,743**	**1,237**	**4,128**	**7,108**

Liquidity risk

Liquidity risk management

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

The Management controls these types of risks by means of maturity analysis, determining the Company's strategy for the next financial period. In order to manage liquidity risk, the Company does regular monitoring of future expected cash flows.

An analysis of liquidity risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Company. The amounts disclosed in these tables do not correspond to the amounts recorded in the statement of financial position as the presentation below includes a maturity analysis for financial assets and liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the statement of financial position under the effective interest rate method.

	Up to 1 month	*1 month to 3 months*	*3 month to 1 year*	*1 year to 5 years*	*Over 5 years*	*31 December 2019 Total*
Financial liabilities						
Borrowed funds	597	44	1,139	243	−	**2,023**
Other financial liabilities	123	−	−	−	−	**123**
Total financial liabilities	**720**	**44**	**1,139**	**243**	**−**	**2,146**

	Up to 1 month	*1 month to 3 months*	*3 month to 1 year*	*1 year to 5 years*	*Over 5 years*	*31 December 2018 Total*
Financial liabilities						
Borrowed funds	5,870	69	302	2,703	−	**8,944**
Other financial liabilities	280	−	−	−	−	**280**
Total financial liabilities	**6,150**	**69**	**302**	**2,703**	**−**	**9,224**

(in thousands of Georgian Lari)

20. Risk management policies (continued)

Liquidity risk (continued)

Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled:

	2019			*2018*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	512	–	**512**	1,334	–	**1,334**
Loans to customers	957	638	**1,595**	1,683	3,129	**4,812**
Repossessed collaterals	1,456	–	**1,456**	1,254	–	**1,254**
Property and equipment	–	94	**94**	–	342	**342**
Intangible assets	–	10	**10**	–	14	**14**
Current income tax assets	–	–	**–**	109	–	**109**
Other assets	98	–	**98**	490	–	**490**
Total	**3,023**	**742**	**3765**	**4,870**	**3,485**	**8,355**
Borrowed funds	1,780	157	**1,937**	6,241	1,921	**8,162**
Other liabilities	240	–	**240**	280	–	**280**
Total	**2,020**	**157**	**2,177**	**6,521**	**1,921**	**8,442**
Net	**1,003**	**585**	**1,588**	**(1,651)**	**1,564**	**(87)**

The table above summarizes the maturity profile of the Company's assets and liabilities as of 31 December 2019 and 2018 based on expected settlement date (except for loans to customers and borrowed funds, which are presented based on contractual maturity).

Market risk

Market risk is the risk that the Company's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk and other pricing risks that the Company is exposed to. There have been no changes as to the way the Company measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

Interest rate and market risks are managed by matching the Company's interest rate position, which provides the Company with a positive interest margin. Management board conducts monitoring of the Company's current financial performance, estimates the Company's sensitivity to changes in interest rates and its influence on the Company's profitability.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

The Company does not have any material financial assets and liabilities at floating rates and thus is not materially exposed to 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 Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Management controls currency risk by monitoring the open currency position on the estimated basis of Georgian Lari devaluation and other macroeconomic indicators, which gives the Company an opportunity to minimize losses from significant currency rates fluctuations toward its national currency.

(in thousands of Georgian Lari)

20. Risk management policies (continued)

Currency risk (continued)

The Company's open positions by the major currencies in which it holds the assets and liabilities are presented below:

	GEL	*USD*	*EUR*	*31 December 2019 Total*
Financial assets				
Cash and cash equivalents	179	333	–	**512**
Loans to customers	682	913	–	**1,595**
Other financial assets	55	2	–	**57**
Total financial assets	**916**	**1,248**	**–**	**2,164**
Financial liabilities				
Borrowed funds	–	1,937	–	**1,937**
Other financial liabilities	120	3	–	**123**
Total financial liabilities	**120**	**1,940**	**–**	**2,060**
Open position	**796**	**(692)**	**–**	**104**

	GEL	*USD*	*EUR*	*31 December 2018 Total*
Financial assets				
Cash and cash equivalents	245	1,089	–	**1,334**
Loans to customers	1,962	2,850	–	**4,812**
Other financial assets	333	–	–	**333**
Total financial assets	**2,540**	**3,939**	**–**	**6,479**
Financial liabilities				
Borrowed funds	–	8,162	–	**8,162**
Other financial liabilities	184	95	1	**280**
Total financial liabilities	**184**	**8,257**	**1**	**8,442**
Open position	**2,356**	**(4,318)**	**(1)**	**(1,963)**

Currency risk sensitivity

The following table details the Company's sensitivity to a reasonably possible changes in GEL/USD exchange rate, determined based on the forecasts published by the National Bank of Georgia. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a reasonably possible change in foreign currency rates.

Impact on net profit and equity based on asset values as at 31 December 2019 and 2018:

	31 December 2019		*31 December 2018*	
	GEL/USD +5%	*GEL/USD -10%*	*GEL/USD +10%*	*GEL/USD -15%*
Impact on profit or loss before tax and equity	(35)	69	(432)	648

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

(in thousands of Georgian Lari)

20. Risk management policies (continued)

Currency risk (continued)

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

21. Subsequent events

In March 2020 the World Health Organization confirmed the novel coronavirus ("COVID-19") as a global pandemic. There is uncertainty over the magnitude of the global slowdown that will result from this pandemic and its impact on Georgian economy. The Government of Georgia has introduced number of measures aimed at containment of the spread of COVID-19, which have significant social and economic impact. The Company is monitoring impact of coronavirus (COVID-19) outbreak on its business, customers and employees and follows the official guidance introduced by the Government of Georgia to safeguard its people and to maintain business continuity. The further spread of COVID-19 in Georgia and globally, is expected to have a negative impact on the economy, however it is too early to fully understand the impact this may have on the Company's business. The Company considers coronavirus (COVID-19) outbreak to be a non-adjusting post balance sheet event.

As a result of global pandemic in relation to COVID-19, the Company is operating in low mode, which means that company does not issue loans and are fully concentrated to cash-out the assets. Company does not have any client flows and the number of staff is low. During the state of emergency the Company has managed to switch to remote working protocols and in the current situation, the Company staff members follow all safety rules defined by authorities.

The Supervisory Board members of the company are permanently discussing the situation and undertaking necessary steps to minimise the impact of the COVID-19 spread.