ANNUAL REPORT 2018

ABOUT US

JSC MFO Crystal ('Crystal') is the leading financial inclusion organisation and the largest by assets non-banking financial institution in Georgia. It manages the loan portfolio of GEL 265 million, employing more than 1,000 members of staff, operating through 62 branches and serving more than 100,000 unique customers across Georgia. Crystal acts as a platform for economic development providing micro, small entrepreneurs and farmers with innovative financial products and services tailored to their needs. Crystal is the first Fitch-rated non-banking financial institution in the region with a rating 'B' stable outlook. In December 2018, Crystal received nation's responsible business award "Meliora".

For more information and digital version of this report, please visit: https://ir.crystal.ge/

crystal Financial Inclusion Organization

Photo: Giorgi Janelidze

crystal Financial Inclusion Organization

CONTENTS

7 STRATEGIC REPORT

8 At a Glance
9 Financial and Operational Highlights
10 Chairman's Statement
12 A Way Forward
13 Chief Executive Officer's Letter
15 Macroeconomic and Market Overview
19 Business Model
20 Corporate Strategy

23 Main Results
24 Business Performance
25 Key Business Outcomes
26 Key Risks and Uncertainties
29 Corporate Responsibility
31 People in our Organisation
35 Management of Innovations
36 Information Technologies

39 GOVERNANCE STATEMENT

40 Supervisory Board
40 Chairman
41 Board Composition
42 Corporate Governance
42 Fight against Financial Crime
44 Supervisory Board Members
46 Management Team
48 Committee Reports

50 FINANCIAL STATEMENTS

142 ANNEXES

142 Annex 1 Compliance with the UK Corporate Governance Code as of 2018
143 Annex 2 Social Enterprises supported by Crystal
144 Annex 3 YES Georgia - in Numbers (2018)
145 Abbreviations

crystal Financial Inclusion Organization

STRATEGIC REPORT

AT A GLANCE

Crystal is the development platform for micro and small entrepreneurs, which aims to defeat poverty in Georgia through promoting entrepreneurship in a financially, socially and environmentally sustainable way.

Crystal's vision is to become a leading regional customer-centric, people-oriented and data-driven financial inclusion organisation.

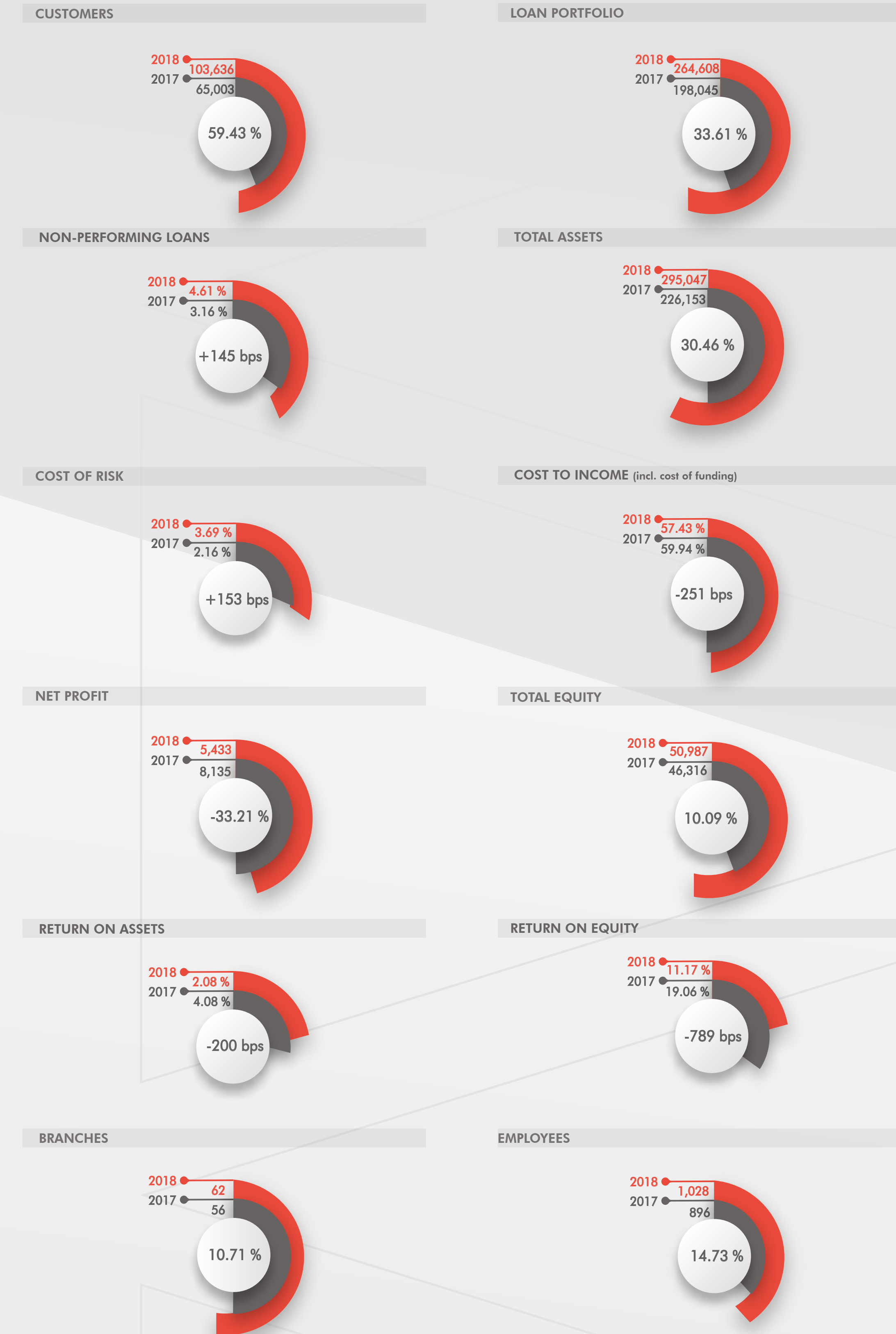
Crystal's comparative advantage is that we view ourselves as a platform for development for our customers. Our solutions-based approach helps us to move away from the sole focus on provision of credit. Financial inclusion requires access to more services, such as current account, insurance as well as an array of non-financial services, including business and financial advice, technological stack as well as knowledge, information, networking and leadership development opportunities.

Crystal is the largest by assets non-banking financial institution in Georgia, managing the loan portfolio of GEL 265 million, employing more than 1,000 members of staff, operating through 62 branches and serving more than 100,000 unique customers across Georgia.

Crystal's institutional shareholders are Crystal Fund, Incofin IM and Developing World Markets. The Company enjoys a long-standing relationship with up to 25 lenders, including international Microfinance Investment Vehicles (MIVs), International Financial Institutions (IFIs), Development Finance Institutions (DFIs) and Georgian commercial banks. Crystal is an active participant at the Georgia's fixed-income market. Crystal's corporate bonds are admitted to the category B listing of the Georgian Stock Exchange.

Crystal is the first Fitch-rated non-banking financial institution in the region with a rating 'B' stable outlook. In December 2018, Crystal received nation's responsible business award "Meliora".

FINANCIAL AND OPERATIONAL HIGHLIGHTS



CHAIRMAN'S STATEMENT

Archil Bakuradze
Chairman of Supervisory Board

Dear Stakeholders,
The year 2018 marked twenty years since the start of the microfinance business and eleven years from the establishment of JSC MFO Crystal (the "Company"). We have taken a long journey from being a small team of enthusiastic students out of a tiny office in Kutaisi City Hall to becoming Georgia's largest non-banking financial institution, employing over 1,000 staff members within 62 branches and serving more than 100,000 customers throughout Georgia.

We live in a time of unparalleled technological and societal change, characterised by globalisation, with an ever-increasing demand on competitive value proposition, responsible and trustworthy brands, as well as bespoke customer experiences. Digitalisation, big data and AI are each altering industrial boundaries, eliminating middle-men and pressing companies to reinvent themselves. Paradoxically, in this modern technological world, a human touch, leadership and personal empowerment are more appealing than ever before. The only true solution to this remarkable situation lies within a Company's ability to change.

After twenty years of consistently successful growth, we felt it was time to make a change. Resulting from a comprehensive exercise (see the details in 'Corporate Strategy'), Crystal has redefined its brand philosophy and sharpened its value proposition to become a regional customer-centric, people-oriented and data-driven 'financial inclusion organisation'.

The Market

Data from 2018 reveals that we have had another year of stable economic development, with GDP growth of 4.7% (2017: 4.8%), an average inflation rate of 2.6% (2017: 6.0%) and a low current account deficit at 7.7% (2017: 8.8%), underpinned by the increasing export of goods (USD 3.4 billion), revenues from tourism (USD 3.2 billion) and the in-flow of cross-border remittances (USD 1.6 billion).

Nevertheless, the Georgian agricultural sector was affected by a stink bug infestation, particularly damaging to hazelnut production in West Georgia, and by plummeting prices for fruits and vegetables in the East, which had a negative impact on the revenues of a large number of farmers and local businesses. Furthermore, the retail lending market was subject to a cascade of regulatory changes, reducing access to consumer lending, while the polarising presidential election created uncertainty, which ultimately translated into a deterioration of the quality of assets.

Regulation

While the short-term effects on financial performance were adverse, there are long-term benefits of the regulatory reform on the financial stability of the retail lending market, hence Crystal's long-term shareholder value, as confirmed by a stabilisation trend in Q1 2019. The National Bank of Georgia, the main regulator for commercial banks and microfinance organisations, has limited unlicensed lenders substantially and adopted new consumer protection measures, introducing a mandatory creditworthiness check. The regulatory changes resulted in an increase of the minimal threshold on lending in the Georgian Lari (GEL), set at GEL 200,000 from September 2018, thus tackling the risks posed by high dollarization. Finally, the operation of credit reference agencies has been brought under NBG regulation, promising further improvements to credit data quality and reliability. The general health of the economy was also recently confirmed by Fitch Ratings, upgrading Georgia's sovereign rating from 'BB-' to 'BB' with a stable outlook, while S&P reaffirmed their BB- rating altering the outlook from stable to positive.

The stability of the microfinance sector has been enhanced further by the prudential regulation standards adopted by NBG for capital adequacy, liquidity and loan losses. The adjustments undertaken by Crystal, within the business model and refinancing arrangements, were minimal due to the Company's historical adherence to SMART[1] consumer protection principles and diversified funding sources, which traditionally cater for demand in lending in the local currency.

Key Highlights

In 2018, there were certain remarkable achievements each worth mentioning:

First of all, we strengthened our senior management team by bringing on-board two experienced and dedicated executives: Sergo Nozadze, as Chief People and Organisational Development Officer, and Beka Tsitskishvili, as Chief Information Officer. Moreover, we fine-tuned Crystal's organisational structure to ensure the successful delivery of our new corporate strategy. New talent acquisition resulted in an unparalleled turnaround of systems and business processes, promising enhanced risk management and improved operational efficiencies.

Secondly, we have enhanced the online and Point-Of-Sale (POS)

[1] International campaign for the protection of consumer rights in microfinance

lending platform 'Akido', which has proven itself a valuable solution for customers and an effective customer acquisition channel for Crystal. Akido is our first tangible success story in designing proprietary technology around digital channels and products, which thus offers greater confidence in pursuing Crystal's future digital transformation.

Finally, in December, we received the prestigious responsible business award, 'Meliora 2018', organised by the CSRDG and supported by the European Commission, recognising Crystal's corporate leadership, commitment to sustainability and our success striking a balance between financial, social and environmental outcomes.

A Way Forward

Embarking on the first year of Crystal's new strategy, we have identified the following priorities:

- A complete rebrand and spread the new strategy throughout the organisation;
- Fully comply with new lending standards and demonstrate continued growth;
- Launch a new product for female entrepreneurs, enabling them to graduate from 'micro', in order to build their 'small' businesses;
- Launch a mobile-wallet service (the equivalent of mobile banking), as the first step towards financial inclusion, thus significantly expanding the non-credit product line available for Crystal's customers;
- Complete optimisation and automation of our core business processes, improving IT architecture, information security, data quality, internal controls and the management of operational risks;

Further polish Crystal's customer experience for all clients, in every stage of the relationship.

In closing, on behalf of the Supervisory Board, I would like to thank the management team and every member of Crystal's staff - our Crystalians - who continue to show amazing competence and dedication to the mission. our special gratitude goes out to Crystal's esteemed investors, DWM Funds S.C.A-SICAV SIF and Incofin Investment Management, our lenders and bondholders as well as the regulators, partners and vendors, without whom it would be impossible to create Crystal's unique value proposition and serve as a 'platform for development' for Georgia's micro entrepreneurs and farmers.

Archil Bakuradze
Chairman of Supervisory Board

CHIEF EXECUTIVE OFFICER'S LETTER

David Bendeliani

Acting CEO/
Chief Financial Officer

Dear Stakeholders,
The year 2018 was full of great challenges for Crystal. Alongside the implementation of our primary activities, the Company has taken considerable steps towards organisational capacity building:

- The Company's organisational structure changed, with two new divisions established - the human and organisational development directorate and the IT directorate. The departments were distributed among the directorates and several new areas were developed (financial supervision, compliance, operational risk management and occupational safety);
- A Project Management Office (PMO) was created separately, and implemented 25 projects in 2018 and has continued implementation of its projects in 2019. In terms of project management, this change has had a positive effect on the quality of implementation;
- Since 2018, the microfinance sector has been subject to prudential regulation. Therefore, Crystal, alongside other market players, has become prudentially regulated by the National Bank of Georgia (NBG). The introduction of legislative amendments was relatively painless thanks to a joint effort by various teams. The 2018 data suggests that, due to the timely introduction of changes into the systems, the Company managed to meet all the new requirements. While adhering to NBG regulation is a substantial challenge for the Company, it also offers significant opportunities in the financial market;
- In terms of regulation, one of the most complicated requirements for the market is to ensure Capital Adequacy Ratio (CAR), which is difficult for most market participants to achieve. However, with a good reputation, investor confidence and our recent accomplishments, by the end of 2018, Crystal managed to reach an agreement with its investors, attracting an additional GEL 10 million;
- In 2018, the new software for customer identification "Accuity" (UK) was introduced to the Georgian financial market and was successfully implemented by the Company;

- To develop small business lending (business loans with a value of GEL 30-100 thousand), with technical assistance provided by European Fund for Southeast Europe (EFSE), the consulting company 'Inspiring Development' conducted a financial analysis of business lines and supported a development of a new lending methodology.

The year 2018 was remarkable in terms of the volume and diversification of funding. At this stage, Crystal has three main funding sources: international partners, local banks and the securities market. International funders represent an important funding source providing USD 30 million in 2018.

Crystal has twenty international and five local lenders. Therefore, the Company effectively ensures diversification of both resources and risks. It is noteworthy that in recent years, Dutch Development Bank FMO and Development Financial Institution Proparco each joined as institutional lenders within Crystal's list of lenders. In 2018, negotiations also began with significant international institutions, such as European Investment Bank (EIB), Europena Bank for Reconstruction and Development (EBRD), Asian Development Bank (ADB), and Back Sea Trade and Development Bank (BSTDB), with a view of commencing collaboration in 2019. Furthermore, at the end of 2018, NBG registered a prospectus to place bonds with a new volume of GEL 15 million to be implemented in 2019.

In spring 2018, Crystal was repeatedly rated 'B' with a 'stable outlook' by Fitch Ratings.

The Company finished 2018 with GEL 5.4 million net profit, the return on equity (ROE) amounted to 11.2% and the return on assets (ROA) amounted to 2.1%. The Company's portfolio grew by 33.6%, and the number of loans increased by 61.9% compared to the previous year.

The Company also successfully developed 'Akido' – its e-commerce and POS-lending platform. In 2018, the Akido system was implemented in external service channels, partner and online stores. Over 120 thousand applications were received and reviewed, among which more than 72 thousand POS requests were satisfied.

Akido has further enabled Crystal to develop branchless sales and service delivery channels. In 2018, as a result of branchless lending, our loan portfolio expanded by GEL 7.1 million through acquisition of over 12 thousand customers. The portfolio mobilised through the Akido system amounted to GEL 27.8 million, with up to 46 thousand active customers reaching 10.5% of the total portfolio.

Finally, certainly worth mentioning our five-year development strategy, elaborated by the Company and approved by the Supervisory Board, aims for the enhancement organisational systems and the development of new services.

I would like to thank the whole Crystal team, who fully mobilised to respond to all the significant challenges of the year and managed to solve important strategic tasks as a team, by supporting one another. My special thanks to our customers who have declared their commitment to our Company for many years. We believe that they are our Company's partners and we will make every effort to develop mutually beneficial financial products.

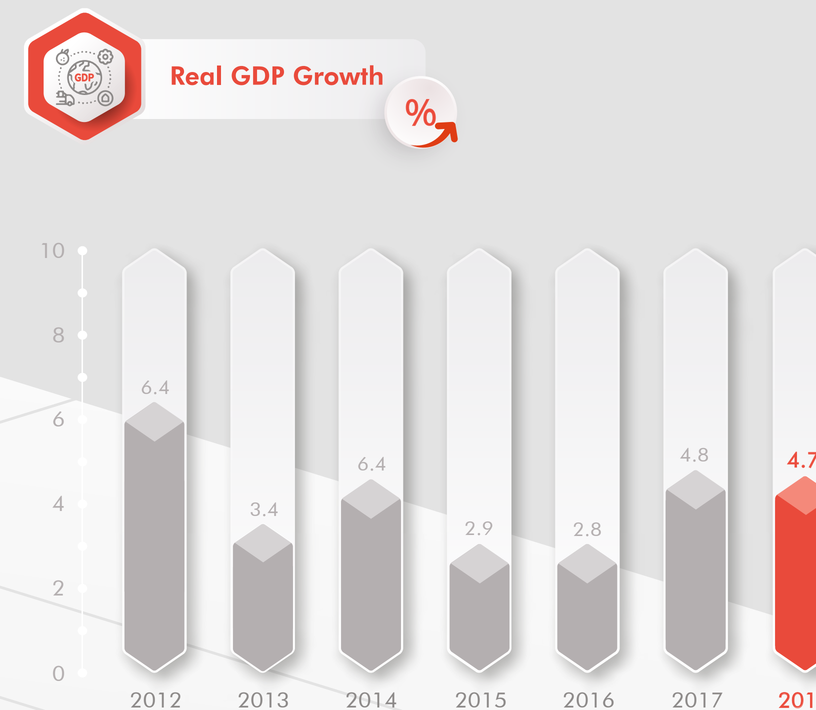
The major challenges that still remain in 2019 are to ensure the Company's systemic enhancement, automation and digitalisation, to increase assets and to provide high-quality services to our customers. In 2019, Crystal will also continue to work on environmental and social responsibility. It is certainly an interesting and important year ahead for the Company!

David Bendeliani / Chief Financial Officer

MACROECONOMIC AND MARKET OVERVIEW

Economic Growth

In 2018, according to the preliminary data, Georgian real GDP growth stood at 4.7% YoY and sustained the stable growth reported in 2017 (4.8% YoY). In terms of sectoral contributions, the largest contributor to real GDP growth was industry (a 1.8 pp contribution), followed by the trade sector (a 1.4 pp contribution). In the 2018 GDP structure, the largest sectoral shares also came from industry, 17% (0.3 pp YoY), and trade, 17% (-0.1 pp YoY).



Employment

Stable economic growth was reflected by the decreased unemployment rate, which amounted to 12.7% (-1.2 pp YoY). The number of unemployed people reduced by 11.1% YoY (-30.7 thousand), totalling 245.7 thousand individuals.

Export

In 2018, goods exports maintained their development and increased with a 22.6% YoY growth rate (USD 626.6 million). While the key regional contributors to the export of goods were the CIS region, 49.8% (6.5 pp YoY), and the EU, 21.8% (-2.2 pp YoY).

Tourism

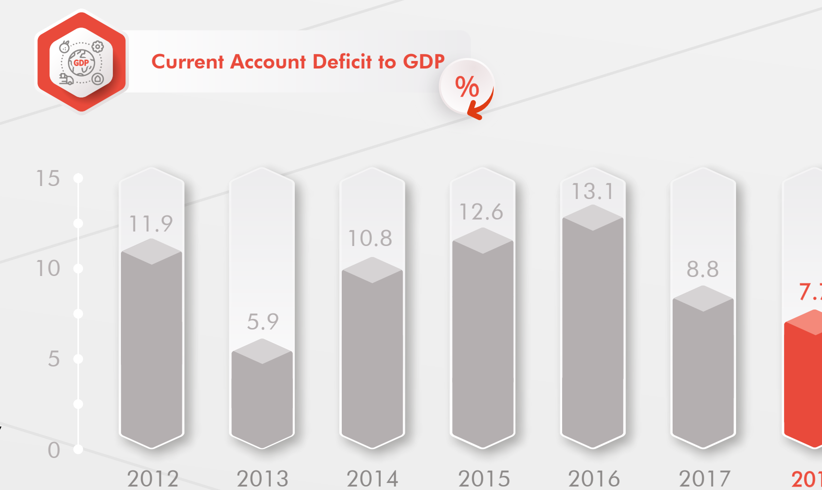
The figures for tourism in 2018 also showed a continued upward trend. The number of visitors increased by 10.1% YoY and reached 8,315 thousand. This increase in the number of visitors improved revenues from tourism by 19.5% YoY (USD 526 million) and amounted to USD 3,230 million.

Remittances

In 2018, remittances grew by 14.5% YoY (USD 193 million) and amounted to USD 1,577 million. The largest share of remittances was transferred from Russia 28.9% (-3.9 pp YoY), followed by Italy with 12.2% (1.5 pp YoY), Greece with 10.8% (0.6 pp YoY), the USA with 10.1% (-0.1 pp YoY) and Israel with 9.6% (1.0 pp YoY).

Current Account Deficit

In 2018, an increase in external inflows (the export of goods, revenue from tourism and remittances) decreased the current account deficit, which totalled 7.7% (-1.1 pp YoY).



Source: The National Bank of Georgia

STRATEGIC REPORT

Foreign Direct Investments

The completion of the second stage of the Shah-Deniz project by BP in 2018, alongside the transferral of ownership of some companies from non-resident to resident entities (for example, the Partnership Fund of Georgia became the full owner of the Borjomi-Likani International Hotel Complex), contributed to a decrease of FDI by 34.9% YoY (USD 662.1 million) and amounted to USD 1,232.4 million. From a sectoral perspective, the largest reductions were seen in transport and communication by 64.3% YoY (- USD 315 million), construction by 63.4% YoY (-USD 180 million), real estate by 49.5% YoY (- USD 88 million) and energy by 29.9% YoY (- USD 67 million). FDI inflows rose in manufacturing by 44.3% YoY (USD 44 million), and there was a modest increase found in various other sectors, for instance in hotels and restaurants and in agriculture and fishing.

Exchange Rates and Foreign Exchange Reserves

Compared to 2017, the end-of-period exchange rate of the Georgian Lari (GEL) in 2018 depreciated against the US Dollar by 3.3% and against the Euro by 1.1%. Moreover, the average exchange rate of GEL depreciated against the USD by 1.0% and against the EUR by 5.6%. Depreciation of GEL against the USD and EUR further supported competitiveness in the export of goods and services.

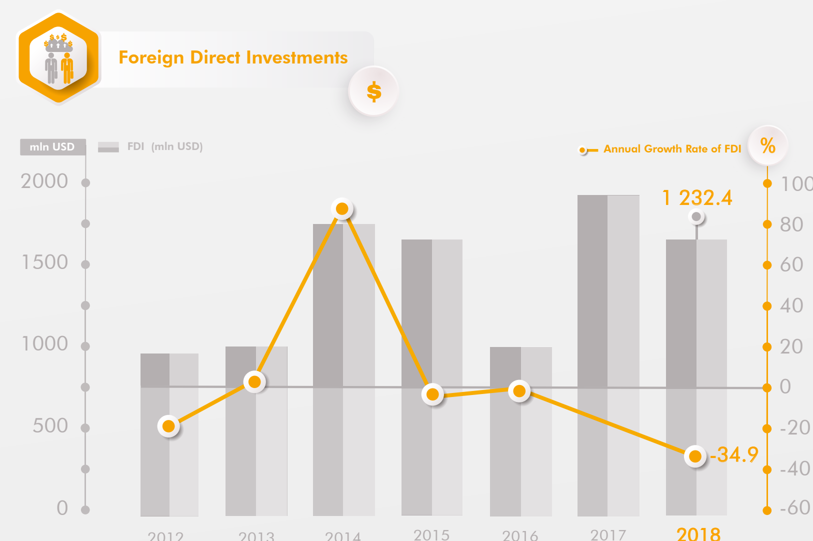
In comparison to 2017, in 2018 the end-of-period exchange rate of GEL appreciated against the Turkish Lira by 26.2% and against the Russian Ruble by 14.1%. The average exchange rate of GEL in this period appreciated against the Turkish Lira by 21.7% and against the Russian Ruble by 5.8%. The appreciation of the GEL against the Lira and the Ruble placed upward pressure on the Real Effective Exchange Rate (REER).

Despite the depreciation of GEL against the USD, NBG continued to accumulate foreign exchange reserves in order to closer match the sufficient level suggested by the IMF (adequate levels of foreign exchange reserve amount to 96%, which highlights that Georgia should increase its foreign exchange reserves by at least by USD 146 million). In 2018, NBG made seventeen interventions and purchased USD 197.5 million.

Inflation and Monetary Policy Rate

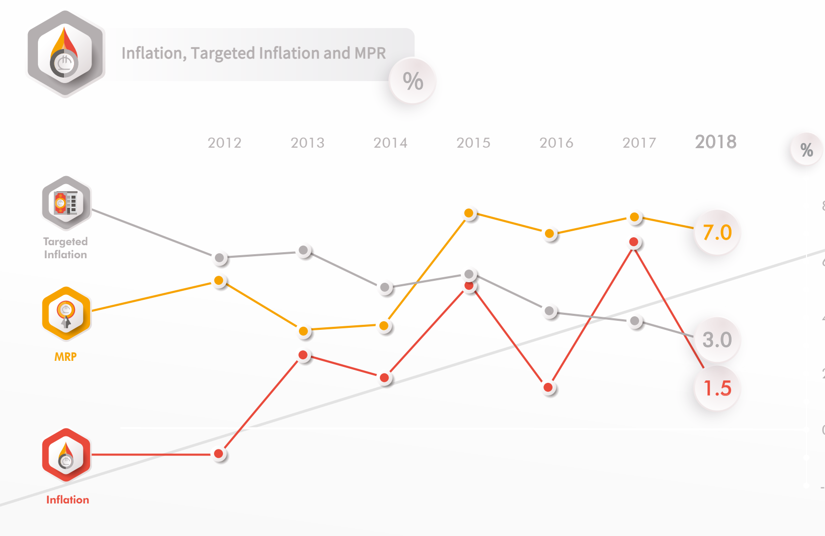
In 2018, annual inflation slowed to 1.5% from 6.7% in 2017, and it remained below its target rate of 3%. In terms of significant products, the major contributors to inflation were alcoholic beverages and tobacco (0.33 pp), as well as food and non-alcoholic beverages (0.52 pp).

Taking into consideration the below target level of inflation and a decrease of macroeconomic risks from external factors, in July 2018 NBG started a gradual easing of the monetary policy and decreased the monetary policy rate (MPR) from 7.25% to 7%.



Financial Sector

In 2018, the financial sector, consisting of commercial banks and microfinance organisations, sustained stable growth in terms of assets and loan portfolios. The sector's total assets increased by 13.9% YoY (GEL 5,023 million) and reached GEL 41.4 billion; the total loan portfolio grew by 18.3% YoY (GEL 4,275.7 million) and reached GEL 27.7 billion.



Budget Deficit

The budgetary balance in 2018 mainly revealed a surplus, though significantly increased public expenditure in December was reflected in a budget deficit, to the amount of GEL 1,018 million. The deficit, in nominal GDP ratio, continued its declining trend and, according to the preliminary data, amounted to 3.4% (-0.5 pp YoY).

Public Debt to GDP

The public debt to nominal GDP ratio maintained a slowly increasing trend in 2018, however it remained far below the recommended upper limit of 60%. Public debt increased by 9.1% YoY (GEL 1,491.7 million) and amounted to GEL 17.8 billion, which is 43.4% of the nominal GDP (higher by 0.3 pp YoY).

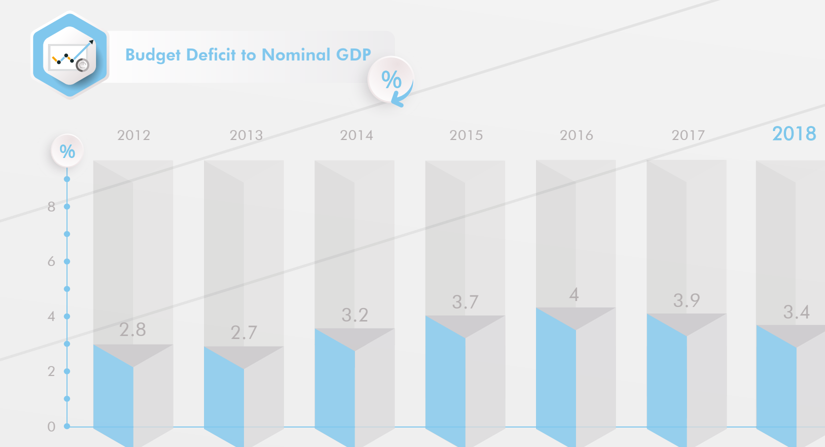
Fitch Ratings

Various positive macroeconomic developments that took place in 2018 were reflected in Georgia's sovereign credit rating, which was upgraded by Fitch Ratings, from 'BB-' to 'BB' with a stable outlook.

Economic Outlook for 2019

The Georgian state budget suggests that the real GDP growth will be 4.5% in 2019, while the IMF's forecast is 4.6% and the National Bank of Georgia's projection is 5.0%. In terms of inflation, the National Bank of Georgia's targeted rate for 2019 remains at 3.0%.

According to the Fitch Ratings, the current account deficit will maintain a declining trend of up to 7% of GDP, whilst the IMF projects that the current account deficit will stand at approximately 8% of GDP, owing to the still robust growth of exports and remittances.



STRATEGIC REPORT

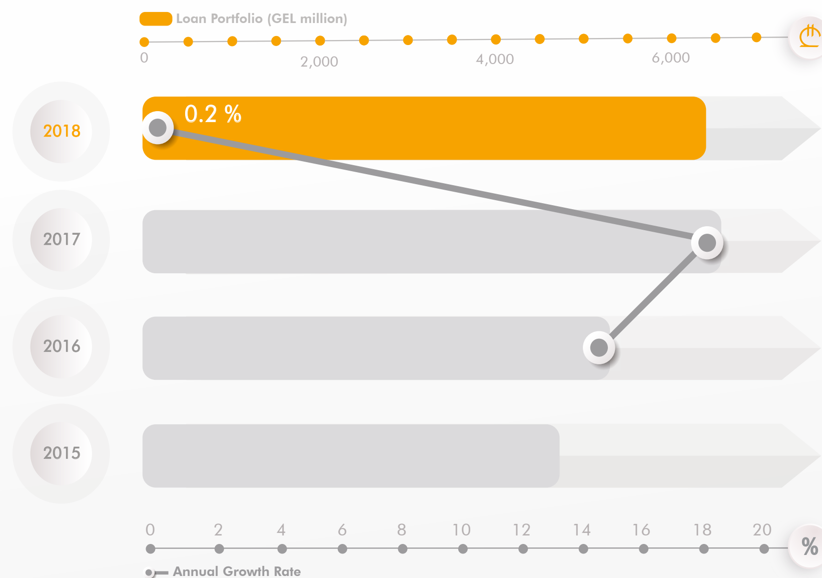
Lending Market Statistics

The lending market size is defined as portfolios and contracts of disbursed loans from commercial banks and microfinance organisations of up to GEL 100,000, with a maximum maturity period of five years for resident households.

In 2018, the market size of portfolios increased just by 0.2% YoY (GEL 15.3 million) and reached GEL 6.7 billion. Within the same period, commercial banks' portfolios grew by 0.9% YoY (GEL 50.7 million) and amounted to GEL 5.6 million. While, microfinance portfolios decreased by 3.1% YoY (GEL 35.4 million) and amounted to GEL 1.1 billion.

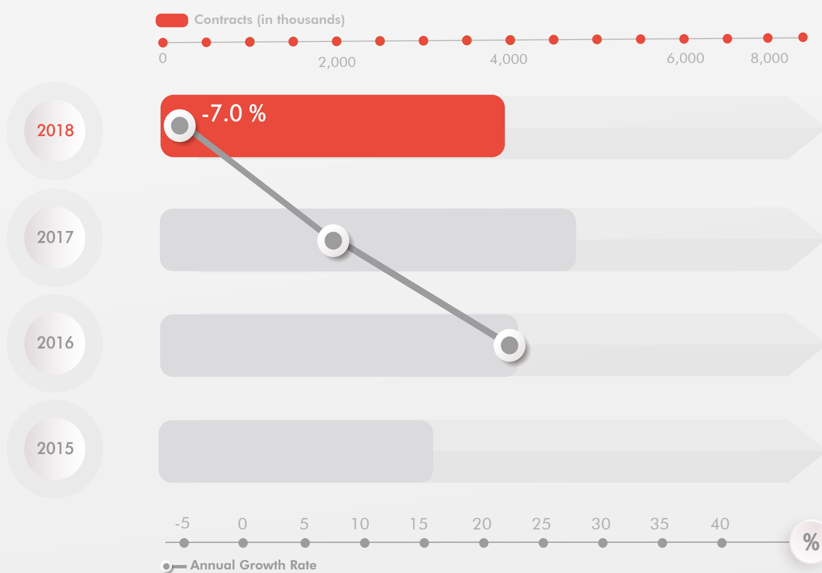
The market size in terms of loan contracts decreased by 7% YoY in 2018 (294 thousand) and reached 3.9 million. Over the same period, loan contracts in commercial banks fell by 8.5% YoY (285.7 thousand) and equalled 3.1 million. Microfinance loan contracts also decreased, by 1.1% YoY (8.4 thousand), and amounted to 786.1 thousand.

Market Size (Loan Portfolio)



Source: The National Bank of Georgia

Market Size (Loan Contracts)



Source: The National Bank of Georgia

BUSINESS MODEL

Crystal is a financial inclusion organisation, which provides various financial and non-financial services acting as a platform for development for its customers, such as micro and small entrepreneurs and farmers. By the end of 2018, the Company's share of the 100,000 GEL loan portfolio (microfinance organisations and banks) amounted to 4%, and to 23.3% (21.5% in 2017) among its direct competitors. The Company has been successively developing at a rapid pace in recent years.

Crystal provides services to its customers through its branches and alternative channels i.e. boutiques. As of 2018, Crystal is found throughout Georgia, in its 40 branches and 22 boutiques.

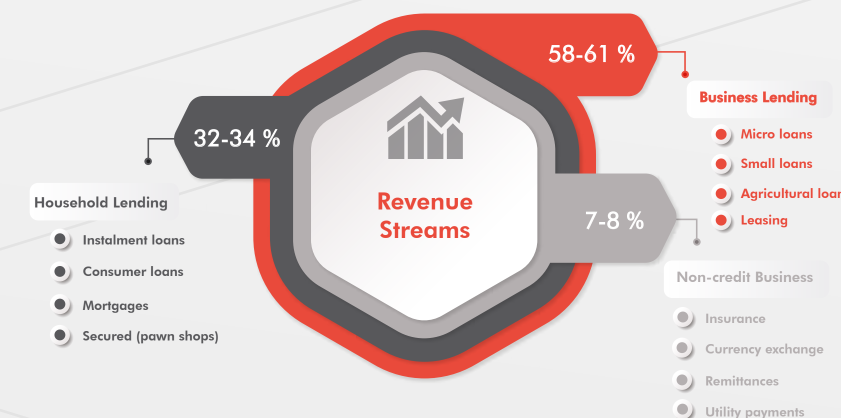
Anticipated Revenue Streams

Crystal is committed to the professional development of its staff and the use of the latest technological infrastructure. Investments into these components boost operational efficiency and offer a competitive advantage to the Company in terms of sales via electronic channels and online service delivery.

Crystal's funding sources are diversified. Financing comes mainly from foreign financial institutions, although local commercial banks also represent a significant funding source. Crystal is keen to develop alternative funding sources, such as issuing and placing corporate bonds, the share of which will range from 5-10% of funding by the end of 2023.
Crystal pays special attention to the design of loan products, internal systems, policies and procedures, employee skills as well as the corporate culture in order to ensure responsible lending practices. The Company has a positive reputation among its customers, financiers, regulators and other stakeholders.

The Company has developed a five-year strategy approved by its Supervisory Board, which was introduced to the parties involved, and the Company continues to develop according to this plan.

Environmental and social responsibility (E&S) activities are regarded as significant priorities, and Crystal's mission by 2023 is to become more socially, environmentally-friendly, gender-balanced and being customer and employee oriented, thus more sustainable and attractive to investors. Our E&S goals are based on our corporate strategy and promote the fulfilment of Crystal's mission to combat poverty in Georgia. It is crucial that we strengthen young people, women and economic migrants, and ensure environmental protection.



[2] Credo Bank, Finca Bank, MFO Lazika Capital, MFO MBC, MFO Georgian Credit, MFO BIG (2017)

STRATEGIC REPORT

CORPORATE STRATEGY

Crystal has adopted a new corporate strategy 2019-2023, which aims at expanding the consumer base and offering services to micro-entrepreneurs and farmers, which goes beyond lending, and should increase the economic productivity of our customers. Crystal plans to reach a loan portfolio size of GEL 1 billion and introduce a range of non-credit services, such as insurance, payments and FX services, as well as non-financial services including information, knowledge and technological applications. The youth, female entrepreneurs, agriculture, and the energy efficiency and renewable energy (EERE) sectors are each a high-priority. Crystal aims to build on its know-how by expanding its digital solutions beyond Georgia, thus becoming - as our vision statement expresses - 'a regional customer-centric, people-oriented and data-driven financial inclusion organisation'. Crystal is not pursuing a bank transformation strategy, however, we will identify feasible ways of diversifying funding sources by continuing our activities within Georgia's fixed-income market.

Planning Process

The strategic planning exercise took almost 12 months of workshops, off-site sessions, travelling to branches and meeting customers, and included a leadership journey with the management team from FMO, a Dutch Development Bank, and management's participation in various international conferences, including in regional microfinance forum in Bilbao. It also incorporated the ideas, thoughts and analysis of not only senior and middle management and the Supervisory Board, but also Crystal's customers, staff, investors, lenders, suppliers, partners and other important stakeholders. Contributions came from two Georgian teams: Millennium Hub, a strategic marketing consultancy and Redberry, our digital transformation advisors.

Our Mission and Desired Outcomes

As a platform for the development of Georgia's micro-entrepreneurs and farmers, Crystal aims to reduce poverty in Georgia by promoting entrepreneurship in a financially, socially and environmentally sustainable way.

Crystal plans to serve more than 10% of the employable population, offering different financial and non-financial services. Our customers will act as role models of micro entrepreneurship for the rest of Georgia. This ambitious mission is contingent upon the Georgian Government delivering its inclusive economic growth strategy and meeting its commitments under the 2030 Sustainable Development Goals (SDGs).

Crystal's desired outcomes each fall under the 3Ps: profit, people and planet. We target an average Return on Equity (ROE) of 18%, alongside the social and environmental benefits. Crystal aims to demonstrate positive societal impact on at least 50% of households served (a minimum of 34,600 customers in 2019), while measurable environmental targets, such as reduction of carbon footprint, improvement of waste management and supporting a bio-diversity, will be elaborated over the course of 2019.

By reaching our desired outcomes, Crystal shall contribute towards six SDGs:

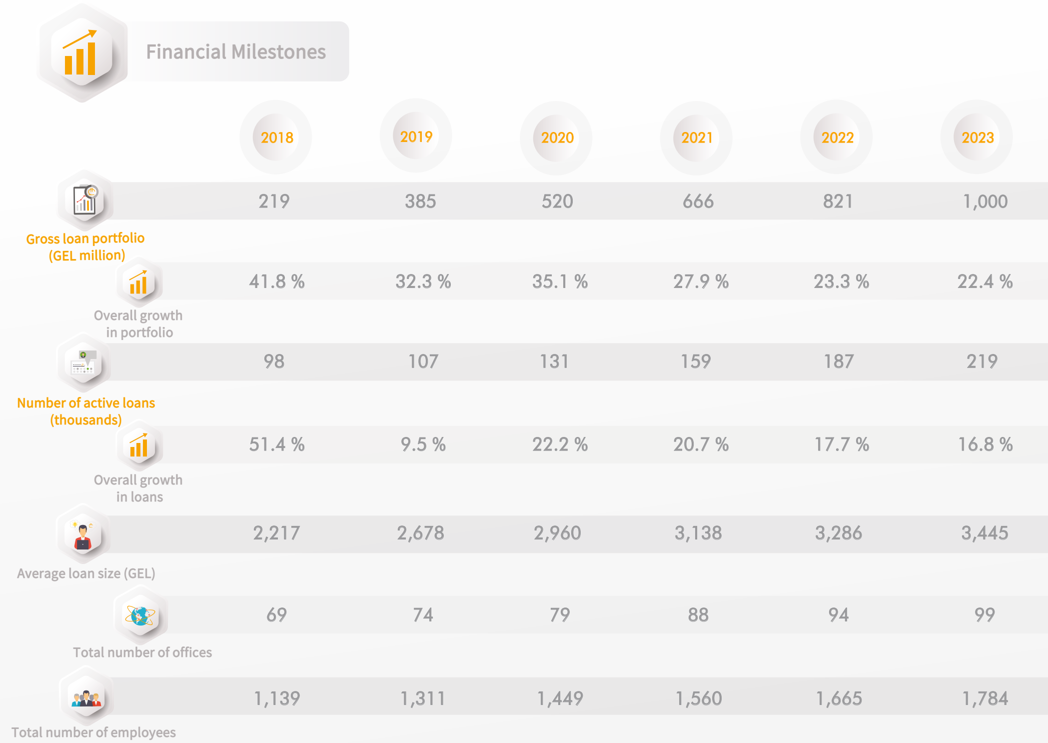
1 NO POVERTY
4 QUALITY EDUCATION
5 GENDER EQUALITY
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES

Operational Targets

The delivery of our corporate strategy depends upon the smooth and timely execution of the operational targets, which form the basis of our annual strategic milestones, distributed across the business units and departments.
The key operational targets are:

- Expanded loan portfolio, including through non-organic growth;
- Increased revenues from non-credit business;
- Wide-scale digitalisation and automation of business processes;
- Brand strengthening and improvement of customer experience;
- Improved talent management and OD systems;
- Strengthened risk governance;
- Enhanced E&S performance and measurement;
- Improved data governance and analytics.

Over the course of the next five years, Crystal should explore new business opportunities in Georgia and consider the possibility of expanding its viable digital products to new markets.



Financial Milestones

	2018	2019	2020	2021	2022	2023
Gross loan portfolio (GEL million)	219	385	520	666	821	1,000
Overall growth in portfolio	41.8 %	32.3 %	35.1 %	27.9 %	23.3 %	22.4 %
Number of active loans (thousands)	98	107	131	159	187	219
Overall growth in loans	51.4 %	9.5 %	22.2 %	20.7 %	17.7 %	16.8 %
Average loan size (GEL)	2,217	2,678	2,960	3,138	3,286	3,445
Total number of offices	69	74	79	88	94	99
Total number of employees	1,139	1,311	1,449	1,560	1,665	1,784

CRYSTAL GROUP

Crystal plans to shift to the group model to fulfil its mission, which involves bringing microfinance businesses and newly added business lines (such as leasing, e-commerce, payments, cash handling, etc.) together under a holding Company. The process of transforming into a group includes several stages and should be carried out before 2021. In 2018, the overall concept of 'Crystal Group' was elaborated and the main models of the new business structure were identified. The legal aspects and tax consequences of the reorganisation were also researched, while the general transformation roadmap was designed detailing steps for the establishment of new subsidiaries. Primary research of several new target markets was also conducted, into which our activities may be potentially expanded.

MAIN RESULTS

Business Performance

As of December 2018, our portfolio included 130 thousand loans and GEL 264.6 million. Over 59% of the total loan portfolio is concentrated in three products: agricultural loans – GEL 53.8 million, microloans – GEL 55.6 million and small loans – GEL 46.9 million.

Portfolio Structure by Product

The data from December 2018 shows that during the year the portfolio grew by GEL 66.5 million and 49,889 loans. Three products contributed to more than 65% of the growth: instalment loans - GEL 22.3 million, small loans GEL 11.6 million and agricultural loans (excluding instalment loans in agriculture) - GEL 9.4 million.

Small Loans (more than GEL 30,000)

The small loan portfolio grew by GEL 11.6 million in 2018 and reached a total of GEL 46.9 million. The increase in the number of loans amounts to 38%. Customers employed in the service (52%) and trade (22%) sectors contributed to 74% of the growth. The Tbilisi and Kutaisi branches contributed to 31% of the growth, which is expected due to the high concentration of the small segment in larger cities. Such portfolio growth was promoted with each borrower being offered individual and competitive terms and conditions for loan products.

Small Loan	2017		2018		Growth	
Customer Segment	Contracts	GEL million	Contracts	GEL million	Contracts	GEL million
Trading	443	11.5	572	14.0	129	2.5
Service	631	17.2	872	23.2	241	6.0
Manufacturing	118	3.6	137	4.1	19	0.5
Agriculture	48	1.4	80	2.1	32	0.7
Households	58	1.6	129	3.5	71	1.9
TOTAL	1,298	35.3	1,790	46.9	492	11.6

Micro Loans (less than GEL 30,000)

In the micro segment, the portfolio grew by 1,456 loans, GEL 4.8 million, where households and trading were the main contributors to growth.

Micro	2017		2018		Growth	
Customer Segment	Contracts	GEL million	Contracts	GEL million	Contracts	GEL million
Trading	4,478	16.5	4,783	17.2	305	0.7
Service	7,195	26.9	7,456	27.2	261	0.3
Manufacturing	832	3.3	874	3.2	42	(0.1)
Agriculture	358	1.3	630	2.4	272	1.1
Households	702	2.8	1,278	5.6	576	2.8
TOTAL	13,565	50.8	15,021	55.6	1,456	4.8

KEY BUSINESS OUTCOMES

In 2018, the instalment loan portfolio growth was record-breaking. It increased by GEL 22.3 million, which was triggered by the following factors:

- New NBG regulations set limits on consumer lending for competitive banks. As a result, the customer flow moved from the competitors to Crystal;
- Quick service - our digital solution (Akido) enabled us to serve customers quickly, which is a significant advantage over the competitors;
- In 2018, 84,000 instalment loans amounting to GEL 35 million were disbursed. Approximately 80% of the loans were approved through the branch network and 20% via boutiques and alternative channels, among which, 70% were household loans and 30% - agricultural loans;
- Six cooperatives received funding to the amount of GEL 190 thousand. The activities implemented by cooperatives are, for instance, the production of dairy products, viticulture, sapling propagation, cattle breeding, or the growing of cereal crops. A value chain project with a one of cooperatives has also begun;
- Fast loan technology was introduced, which ensures the confirmation of a borrower's income and remotely approves loans within a few hours of an application submission;
- An expanded network of external sales was established as a separate, better-organised unit;
- Agricultural instalment loans were expanded. The numbers of merchants involved in the network of suppliers increased significantly. Moreover, the approval of instalment loans and the provision of products occur simultaneously in the field. Relationships established with suppliers over previous years and such experiences have greatly contributed to operational successes;
- In cooperation with our suppliers, the awareness raising programs were conducted for customers to strengthen their relationship and help increase their loyalty;
- Due to a seasonal approach, a new customer flow has been created. Overall, this year 27,000 agricultural loans and GEL 10 million have been disbursed in working capital loans – doubled from last year.
- The primary model for the specialisation of Loan Officers was introduced in some branches where micro and small loan officers were segregated. Thus, the effectiveness of Loan Officers increased significantly and improved the focus on micro and small lending.

KEY RISKS AND UNCERTAINTIES

Goal and Principles

Any ongoing business process involves risk, therefore one of the most important goals of the Company is to ensure an effective and efficient risk management system, based on international standards and the best practices.

These goals help highlight an effective and efficient risk management system, which should consist of the main principles, the framework and the processes that will enable the Company to:

- Be quickly informed about existing risks and threats;
- Ensure the prevention of losses and effectively manage incidents;
- Create reliable bases for decision-making and planning;
- Increase the probability of achieving goals;
- Improve control;
- Improve operational efficiency;
- Improve and encourage proactive management;
- Comply with the requirements of the regulators and international standards;
- Gain the trust of interested parties;
- Improve organisational training;
- Improve the organisation's sustainability.

The risk management system must comply with the Company's business strategy and facilitate the achievement of the Company's strategic goals.

Among microfinance organisations operating in Georgia, Crystal was the first Company to obtain a rating from Fitch Ratings, which helps assess the Company's solvency and stability.

The Company has implemented IFRS-9, the international standard for asset classification and loss reserves. Amongst all financial companies, microfinance organisations and banks operating in Georgia, Crystal was the first to have managed this reform.

Risk Management System - the Main Approach

The risk management system is based on adherence to the three-level principle, which is crucial for ensuring the engagement of all interested parties in the risk management process, for a smooth communication process and for obtaining all possible information and expert opinions (BCBS 2011).

- The process owner is responsible for managing the risk in the procedure, using the Company's available risk management tools;
- The structural unit is responsible for risk management in the development and implementation of risk management tools;
- The internal audit service is responsible for assessing competences within the risk management process.

The Company has an appropriate risk management culture and environment that has been instituted by its Supervisory Board and management. The Company has also agreed upon and approved risk limits, which are important elements of risk management and are reflected in the document on Risk Appetite and Risk Tolerance, which includes all of the main acceptable risk levels and the necessary control mechanisms. Contingent on the Company's standards, risk is measurable and is captured in monetary units. Therefore, the Company may take the following steps dependent on the expected risk:

- Accept the risk;
- Immediately involve additional controls and limit risk operations;
- Transfer the risk to a third party (insurance);
- Prevent risk, terminate risky operations.

Structural Units Involved

Supervisory Board - The board determines the key objectives of the Company and approves its risk management appetite and policy. Supervisory Board alongside the Risk Committee review the key risks

on a regular basis and assess the risk management system with the help of the Internal Audit Committee.

Supervisory Board Committees - The goals of the risk Committee and internal audit Committee are to study the internal and external risks faced by the organisation, to inform the Supervisory Board of the strategic risks imposed on the Company and to provide recommendations on the systems and processes that should be integrated or improved to manage and reduce risks.

Internal Audit Department - The Company's internal auditors monitor the risk management system and evaluate the efficiency and sustainability of the system.

Chief Executive Officer - CEO ensures the introduction of systems for the implementation of policies and risk appetite limits, as approved by the Supervisory Board.

Structural Units in charge of risk management (Risk Management Department, Compliance and Anti-money Laundering Department, the Information Security Risk Management Department) - assess the quality of the existing control mechanisms and their compliance to the Company's risk appetite. They, moreover, develop and update risk management tools (after the validation by Management Team).

Structural Unit in Charge of Operations – these units manage and control risks at the operational level involving evaluation and updating of risk management tools.

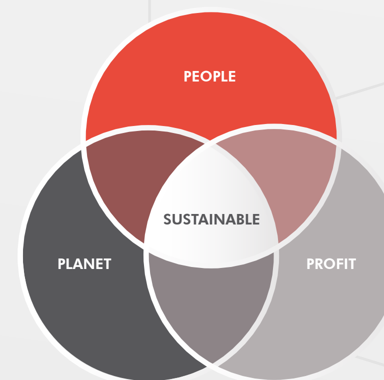
Risk Reduction and Excessive Concentration Management

The Company has introduced the following tools for the reduction of risks:

- Set limits for credit portfolio diversification, including limits according to the business sectors and business subsectors. No more than 15% of the portfolio should be allocated within any single business subsector (e.g., cattle breeding, poultry, internal public transport services, taxi services, etc.);
- The Company conducts a monthly analysis of the risks to the portfolio. The purpose of the analysis is to identify risk concentrations in the portfolio and to recommend effective measures to reduce them;
- The credit committee, an independent body, makes decisions based only on an assessment of the available and statistical information, taking into account the potential risks and effectiveness of a project;
- The Company's approach to underwriting takes account of the principle of avoiding the over-indebtedness. The purpose of Crystal's loans should be to develop customers' businesses or to improve their living conditions. The financial effect on customer crucially must be positive;
- There are two levels of approval. There are committees that review specific applications dependent on the loan amount: for small amounts, a business line can make the decision, whereas for larger loans Risk Department must provide approval;
- Use of credit scores and ratings to help underwriters in decision-making;
- A reduction of instalment amounts in case of decreasing revenues; loan restructuring, which is effective and represents relief for customers;
- A stress test in which expected risks are assessed under different scenarios;
- The risk case collection database, the analysis of which reveals increased risk of operations, followed by an evaluation of control weaknesses;
- Utilising the proper methodology for collateral assessments;
- The Company has established a credit control service under the management which is responsible for post factum monitoring of credit operations. Its purpose is to identify flaws and develop recommendations for further responses;
- Update and improve the compliance risk management process;
- Renew the anti-money laundering (AML) process and ensure its thorough automation.

CORPORATE RESPONSIBILITY

Crystal's vision is to become a regional customer-centric, people-oriented and data-driven financial inclusion organisation.



We strive to achieve our desired results as characterised by the principles of the 3Ps: people, planet and profit. Our strategic sub-goals further serve to achieve this vision.

Business has changed drastically over the last few years, and sustainability is becoming an inseparable attribute of both large and small businesses. Crucially, the significant principles of sustainability extend business focus not only to Company profit, but also to employing profit so that it may have a positive effect on the people and the planet.

crystal

Achievements in Corporate Social Responsibility

- Crystal conducted its first social impact research in 2017, which should be systematically conducted once every 12-15 months;

- Crystal invested 1.93% of the net profit into corporate social responsibility projects, including:
  - 9 social enterprises (Annex 2);
  - 15 social projects covering 3,000 direct beneficiaries (young people with limited abilities, elderly people in need, etc.)
  - 32 youth projects.

The mentioned social enterprise and youth projects across Georgia include: small manufacturing, agricultural and innovation sectors.

The fourth round of the Young Entrepreneur School (YES Georgia) was conducted across seven regions in Georgia in 2018, from which 467 applications were received (207 male and 258 female participants). Of these entrants, 130 applicants were selected. Since 2015, Crystal's Young Entrepreneur School has received approximately 2,000 applications, out of which 650 young people were selected to participate in school training, where 44 business ideas were financed. (Annex 3)

Key Achievements

Crystal was the first Georgian Company to become a member of the UN Global Network-Business Call to Action;

- Crystal has included the United Nations' sustainable development goals and environmental impact assessment into its Company strategy;
- The loan portfolio amounts to GEL 4.5 million, with more than 5,000 green loans disbursed;
- Crystal has helped to save 2,493,154 kilowatt (kW) of electricity and 354 tons of CO_2 through the 6,186 'green' products issued in 2018;
- Within the UN Women's Economic Empowerment Principles (WEPs), Crystal was among five companies to sign WEPs through the gender monitoring process, conducted by the UN Women's Human Resources and Gender Advisors. Crystal is currently implementing its 2018-2024 action plan. In 2018, Crystal was very actively involved in UN Women's Working Group meetings alongside private sector representatives.

Responsible Business Awards MELIORA 2018

In 2018, the first Responsible Business Awards MELIORA was conducted with the support of the EU Commission and organized by the Centre for the Strategic Research and Development of Georgia (CSRDG).

The competition included 41 companies, which incorporated 76 corporate social responsibility projects. Leading foreign and Georgia experts (an independent jury of 27 representatives from Georgia, UK, USA, Belgium, Denmark, Israel, Norway and Slovakia) assessed and identified the most responsible and exemplary projects.

Crystal was awarded the Grand Prix.

PEOPLE IN OUR ORGANISATION

Talent Management

Crystal's management takes care of each employee's welfare by creating the best working conditions and building the system to increase the motivation of every single Crystal employee. We provide a safe and healthy working environment for our employees. The terms 'human resources' and 'human capital' have been completely replaced using new approaches and with the term 'people' and 'talents'. The Company ensures that people are a top priority. Therefore, our corporate values, current structure and the culture of the internal organisation assist permanent and continuous opportunities for human welfare, happiness, personal and professional development, alongside equal access to new opportunities and protection of labour rights, human rights and freedoms.

Exclusions

Each of the organisation's offices have been declared arms, tobacco, alcohol and drug free zones. It is categorically prohibited to bring, use or consume any proscribed items within office spaces.

The organisation is managed by professional and motivated staff. The Company constantly strives to create new opportunities to engage its employees, and to increase their motivation and professionalism.

Equal Opportunities

The Company offers equal employment opportunities to all employees and job candidates, irrespective of their race, skin colour, language, gender, age, citizenship, origin, birthplace, place of residence, material status or position, religion or belief system, nationality, ethnicity, social status, profession, marital status, health condition, disability, sexual orientation, gender identity and expression, political or other opinions, or due to any other distinctive personal features. These policies are in force for all conditions of employment, including hiring, promotion, contracting, compensation, training, etc.

Anti-discrimination Policy and Prevention of Harassment

The Company has a clear anti-discrimination policy, which strictly prohibits any form of discrimination or harassment behaviour or intent towards individuals who have business relationships with the Company at the pre-contractual and all other stages of labour relations (regardless of contract type, be it a labour or service contract). Employees should immediately report any incidence of discrimination to the Talent Development and Management Department and cooperate with the Company to ensure that relevant investigations are conducted for each of discrimination cases.

The goal is to create a healthy work environment and to prevent the harassment of any employee. The term 'harassment' relates to any behaviour that involves unjustified interference with an employee's work, resulting in a hostile or abusive environment, or other negative impacts on any employees' working conditions.

The Company is committed to prohibiting and preventing sexual harassment in the workplace.

Human Rights, Labour Safety and Work Conditions

The Company acknowledges the importance of the full protection of every employee's rights and creates a completely impartial, transparent and unbiased system that, in turn, contributes to achieving the strategic goals of the Company's management - to protect the rights of each staff member and employee, their human rights and freedoms, to protect them from any form of discrimination or harassment and to create a wholly safe and comfortable environment for the implementation of everyday working activities.

For this purpose, the Company has created and uses a confidential notification mechanism - the whistleblowing disclosure system.

Our open and transparent communication culture is a primary factor in helping eliminate discriminatory actions. The Company constantly strives to create an environment where every employee can express their opinions, where everybody knows that they will always be heard and be treated properly. The Company always offers straightforward opportunities to access the operating risk management department, and thus protect themselves and the Company from the negative consequences of discriminatory action.

Crystal, as a socially responsible organisation, has provided training on labour safety and health care issues for all employees.

Staff Selection and Adaptation

Since 2018, an HR business partnership model has been implemented throughout the Company. This includes the active cooperation of representatives of the management and the Talent Development and Management Department. The aim is to utilise the resources of HR business partners to ensure assessment of needs, including for new positions, map out strategies for employee selection, select people who fully meet the qualification requirements, ensure newcomers' adaptation to new positions and teams, supporting their development and future career planning.

From the very first day of all new jobs, the direct manager and HR business partners provide an employee with information about the Company's values, functions and obligations, and introduce them to the team. The HR business partner is constantly involved in the process of the new employee adaptation, and occasionally meets the employee and the manager to help them with their specific needs. The new employee undergoes a probationary period of up to six months upon commencement of employment.

Important Facts

2018 proved to be a turning point for the Company, marked by the establishment of People and Organisational Development division.

In accord with the ambitious strategic plan 2019-2023, the goal of the division is to ensure the smooth function of relevant processes and procedures, and to provide an assurance that staff are equipped with the necessary skills and correct knowledge at the appropriate time and place.

The motivation and engagement of each Crystal employee is critical for the Company's management team. Therefore, in 2018 several important projects were launched and implemented, which have since led to a completely new stage in the relationships between the Company and its employees.

- One of the most important projects implemented by the team in 2018 was the introduction of new labour contracts and internal labour regulations, based upon recommendations provided by international partner organisations and experts.
- The main set of new documents regulating labour relations is in full compliance with local and international norms, which, according to leading experts and organisations, is of a qualitatively high standard and in compliance with the mentioned standards;
- These norms fully cover all aspects related to gender equality, based on the set standards and recommendations provided by UN Women;
- The digitalisation of the process is noteworthy. The Company arranges signing of the new labour contracts through an innovative system solution based on electronic signature and other features. This innovation significantly increases the reliability, protection and quality of any documentation;

Training and Development

The Company implements employee training and development systems as a deliberate, organised, stable and regular process for acquiring new skills and knowledge.

Through the elaboration and implementation of various projects for the development professional knowledge and skills, the Company aims to harmonise with staff's personal goals, which, therefore, increases employee motivation and sense of responsibility.

In 2018, a special training program on management and leadership was developed to cultivate leadership skills among employees. The program is mainly based on practical components, although it also includes interactive and strategic games, tests and simulations. All managers were trained under within the program.

A special guideline was also developed to include Crystal's managers' standards, together

with modern management approaches that determine their responsibilities.

In 2018, a wide range of training programs (business analytics, labour safety, inheritance law, efficient service techniques, sales management, financial analysis etc.) were delivered totally to 1,314 participants.

Promotion of a Healthy Lifestyle

To promote a healthy lifestyle throughout the Company, we motivate employees to get active and encourage their collaboration through an annual mini-football tournament. Eight teams took part in the first tournament, selected from 25 teams across different regions.

Process and Methodology Development

The Company develops methodological documents for the purpose of standardising business processes and for mitigating the operational risks. Methodology includes policies, process flow diagrams, rules and standards.

In order to improve the flexibility of methodological documents, a scheme for their development was elaborated upon, which clearly outlines the roles and responsibilities of the process owners, the parties involved in the process and the development of methodology.

In 2018, 85 methodological documents were developed and updated based upon regulations and other internal and external factors.

Internal Communications and HR Brand Enhancement

The modern, development-oriented Company management understands the importance of internal communication, which is transparent and open for cooperation and implementation of processes and activities.

In order to improve Crystal's internal communications, an expert was invited to study our internal communications channels and systems. Based on the analysis of the information obtained, an internal communication strategy and new procedures regulating communications were elaborated. They aim to promote the improvement and effectiveness of the current communication practices, implementing common principles and standards for internal communication, which will help employees with better planning, implementation, and evaluation of their activities and relevant reporting.

New regulations promote efficient communication between the management and the staff. Furthermore, the Company is committed to forming an image of Crystal as an attractive employer with appealing HR branding. Thus, in 2018, the concept of 'Crystal - the best workplace' was developed, which highlights all aspects of the Company's activities, all HR processes, practical activities, and all conditions that improve employee satisfaction and loyalty towards the Company.

MANAGEMENT OF INNOVATIONS

The adoption of new technologies is an integral part of Crystal's strategy. The Chief Innovations Officer, Chief Information Officer and respective departments consequently ensure delivery of this strategy.

The following innovative projects are worth mentioning:

Agricultural Boutiques

Crystal's agricultural boutiques project was launched in 2016 offering high-quality financial services through small, local service centres in remote rural settlements. Agricultural boutiques do not have local management and operated on the basis of self-regulating teams. In 2018, seven additional boutiques opened in different regions of Georgia.

Akido - Online Agricultural Platform

Akido is an online e-commerce and instalment loan platform, which was developed with the financial support of the KFW and the European Union. The platform provides supporting tools, seeds, fertilizers and chemicals for small holder farmers. Akido was piloted in 2017, and has been actively used as a sales channel since 2018, subsequently almost doubling the number of agricultural loans.

Agricultural Card

The agricultural card is a loyalty card for farmers extended to members of the Agricultural Club. Card-holders receive discounts on agricultural products and loans. In 2018, agricultural cards were provided to more than one thousand customers.

Green Financing

Crystal's green financing project was implemented in October 2017 being supported by FMO and with technical assistance provided by the Frankfurt School of Finance and Management. The project offers Crystal's customers EERE solutions. As a result, green products have been developed with adequate system of measuring and reporting the impact on carbon reduction. Crystal generated a GEL 5 million portfolio with the help of green lending as at the end of 2018, twice as large as initially planned.

Mobile Wallet

The Mobile Wallet is a digital platform that allows customers to hold virtual money and carry out transactions such as peer-to-peer transfers, utility payments, loan repayment and other services, without a bank account.

INFORMATION TECHNOLOGIES

Key Processes

To ensure proper IT development, based on the Company needs for the next five years, a strategy for the development of information technologies was developed. Key international standards-based IT processes and procedures were developed and implemented, including user access management, capacity planning, application lifecycle management, software version management, ISO 27001 processes and procedures, incident management, change management (ongoing project), etc.

The responsibilities of different departments and roles were assessed to meet the full needs of application lifecycles, operations, business continuity and information system security. Necessary roles were also developed and different projects were implemented to improve business and IT processes.

New Structure

Since May 2018, important changes were introduced in the structure of IT organisation, which aimed to improve performance and answer to the requirements of business. New roles and structural units were created based on these changes.

The management structure of the Project Management and Business Analysis division ensures the standardisation of project-related management processes and promotes resource sharing when it comes to methodologies, tools and techniques. The Project Management Office was established to assess the needs of the Company and manage all projects (IT and non-IT projects) implemented by the Company. Based on Company needs, different methodologies were analysed to be used in project implementation be it waterfall or agile methodologies depending on the needs and peculiarities of each project.

The PMO team started from scratch and currently manages the portfolio of 40 strategic and 130 standard project. Between May and December 2018, within just eight months, 25 projects were completed.

It is important to highlight several significant projects, each at different stages: adaptation to NBG regulations, development of ERP, the human resource management system, the scoring system, the decision management system, adoption of ISO 27001, WAF, digital tools for employees, the electronic archive, business process automation, etc.

Information Systems Security

Taking into consideration the growing demand for information systems security, the Information Systems Security Department was created. The Department is composed of two staff members, who safeguard information systems security for the Company.

The organisation decided to introduce the ISO 27001 information security standard. ISO/IEC 27001: 2013 (ISO 27001) is an international standard that designates the best practices for the ISMS (Information Security Management System). The Company aims to receive an accredited certificate for the ISO 27001 standard, which shall confirm best practice for information security ensuring that information security is managed in accordance with the international best practices and business goals.

The ISO 27001 project is being implemented covering 140 instances of controls. Approximately 60 procedures and policies have already been developed, approved and implemented, the awareness raising programs have been extended to the employees.

Software Quality Assurance

The SQA team has been divided from the IT Development Department in order to ensure quality improvement in software and better control over the engineering process. The small team of two employees has made significant changes to the SQA process, including the implementation of a new application for testing processes to establish adequate analysis, planning and significant improvements within the testing environment.

IT Operations

Significant changes have been made to the IT infrastructure. New processes and IT projects have been implemented to improve operations, promote projects and ensure business continuity.

Several projects should be emphasised, including changes to the data centre: physical migration to a new location, improvement of business continuity, upgraded equipment,

crystal Financial Inclusion Organization

virtualisation and optimisation of server infrastructure, and compliance to the National Bank's amendments related to the loan loss reserve policy and changes in credit information.

A significant improvement to the information systems security, including customer protection and infrastructural changes of the server and network, ensures sustainable and secure infrastructure and IT operations.

Work digitalisation is another key project in 2018. The organisation shifted from its prior e-mail system to Office 365, which offers new work practices and an opportunity to work remotely, on any device, with notable flexibility; up-to-date equipment; greater productivity and collaboration; reduced complexity in the infrastructure; and security improvements.

IT Development

A new strategy was developed for the IT Development Department, which highlights programming, a domain-oriented design approach, source management, a code versioning and other processes, application support, implementation and administrative processes.

Internal development is concentrated primarily on the development of Akido, the digital platform, and on the loan production and decision-making system, to which significant changes have been made. In the second half of 2018, Crystal developed new Business Intelligence system.

The segregation of responsibilities between the development and operations teams, separation of testing and production environments, were implemented to improve the quality and reliability of developed software.

GOVERNANCE STATEMENT

Photo: Archil Gegenava

It is our responsibility to present this annual report and to provide shareholders with audited financial statements. We consider the annual report and accounts, taken as a whole, to be fair, balanced and understandable, and to provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

As the Supervisory Board ('SB' or 'board') of JSC MFO Crystal ('Crystal'), we present this annual strategic report and the acCompanying annual financial statement, provided by external auditors, as a fair, balanced and comprehensible account, which provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

The report highlights the key operational and financial results, introduces the main achievements and challenges confronted by the Company in 2018, as well as outlines its plans for the next reporting period.

This report has been drafted in line with the Law of Georgia on Accounting, Auditing and Reporting, and with the specific disclosure requirements of the UK Corporate Governance Code.

Archil Bakuradze
Chairman of Supervisory Board

SUPERVISORY BOARD

Crystal is headed by the effective Supervisory Board, which is collectively responsible for the long-term success of the Company.

The Supervisory Board is comprised of six members, including two independent directors, two investor representatives and two members, who are Georgian nationals based in Georgia. The directors bring extensive experience of business development, corporate governance, banking and microfinance, technology, innovation and senior human resource development.

CHAIRMAN

The roles of the Board and of the Chairman are clearly distinguished from the responsibilities of the management team. The Chairman is responsible for the leadership of the Board ensuring its effectiveness in all its aspects.

There have been no significant changes made to the commitments of Archil Bakuradze (Georgia), the Chairman of the Supervisory Board (SB), who is a financier, entrepreneur and the founder of Crystal.[3] Archil co-founded two other finance companies: a payment system provider in Georgia and a consumer finance Company in the United Kingdom, for which he has been granted a controlled function CF2 Non-Executive Director from the UK Financial Conduct Authority (2017). He serves as Chairman of the Board of Crystal Fund and participates in the governance of several non-profit institutions. The Chairman spends more than half of his time working with Crystal and his role and responsibilities are regulated through the respective policies and are approved by SB. The Chairman is appointed by and accountable to the shareholders. The performance of the Chairman is assessed by the Company shareholders, based on his performance assessment carried out by SB. Upon the recommendation of the board, shareholders approve the Chairman's remuneration and any changes thereof.

BOARD COMPOSITION

Crystal uses its Supervisory Board policy and procedure to clearly define its mandate, role and responsibilities and to regulate its activities. It sets forth procedures, communication rules, and provides guidance on the management of conflict of interests, as well as rules for the appointment and resignation of members.

The Deputy Chairman of the SB, Nikoloz Loladze (Georgia), is an experienced corporate director, an independent member of the SB, who alternates as Chairman during absences and chairs the Risk Committee. Mr. Loladze is a shareholder of JSC Mobile Finance Service Georgia, which provides Crystal with electronic payment services. Hence, on any decisions relating to these matters Mr. Loladze abstains from voting.

The SB members include (in alphabetical order): Jan Dewijngaert (Belgium), appointed by Incofin IM, who chairs the Strategy and Innovation Committee; Aleem Remtula (USA), appointed by DWM, who chairs the Environmental and Social Committee; and Keith Young (UK), appointed by Crystal Fund, who chairs the HR and Remuneration Committee.

New Independent Member

Lilit Gharayan (Armenia), an independent member of the SB, was appointed on 11 July 2018. She brings extensive experience of microfinancing, consulting, risk governance and internal auditing. Lilit chairs the Internal Audit Committee.

Activities of the Supervisory Board

In 2018, the SB met four times in-person and nine times remotely. The number of each SB committee meetings in 2018:

- Internal Audit Committee - 3;
- ALCO (Assets and Liabilities) Committee - 9;
- Risk Committee - 3;
- Strategy and Innovation Committee - 2;
- E&S Committee - 4;
- Human Resources and Remuneration Committee - 4.

The SB receives a detailed quarterly report on the Company's key performance indicators, including a statement on its financial position. In addition, the SB reviews a quarterly risk report. The SB committees examine detailed reports and discuss matters within their competences. The SB conducts regular reviews for the implementation of strategic annual milestones.

The key focus of the SB is to ensure the effective supervision and governance of the Company. Resolutions made by the SB deal with strategic issues, overall organisational structure, board-level policies, large-

[3] Archil Bakuradze is a founder and the first director of CHCA, a non-profit organisation, where he initiated the microfinance program, later to spin off and to become the specialised microfinance organisation Crystal Fund (2004), which was ultimately transformed into JSC MFO Crystal (2007).

scale projects, motivation and performance appraisal of chief officers, approvals of the annual milestones, financial forecasts and recommending relevant actions to shareholders, such as the distribution of dividends, issuance of new shares for the management incentive plan or the composition of the board.

Support of the Board

The work of the SB is supported by a Corporate Secretary and the Chairman is supported by an Executive Assistant.

Finally, to ensure the integrity of data models and the quality of reports, and in order to provide assurances to the board, a Head of Data Governance and Analytics is appointed by and reports directly to the Supervisory Board.

CORPORATE GOVERNANCE

Crystal's corporate governance contributes to the fulfilment the Company's mission and long-term strategy. The role of the Supervisory Board is to assess, on an annual basis, the achievement of corporate strategy and to reflect the targets of the following year's strategic milestones. Every Chief Officer is assigned a set of primary and secondary strategic milestones, which forms an important basis for their variable compensation. These milestones are subsequently delegated to business or structural units, and translated into action plans to be measured by key performance indicators.

The aim of effective corporate governance is to ensure the Crystal board maintains its customer-centric and people-oriented approach. Thusly, the board commissions customer satisfaction and staff engagement surveys. Finally, the social committee reviews on an annual basis its social impact assessment.

Crystal has a stringent policy for managing conflict of interests. It is regulated by SB rules and procedures and the ethics code for all members of staff.

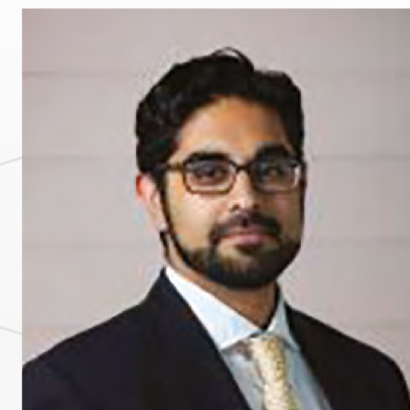
Crystal, to the greatest possible extent, models its system of corporate governance on the principles of the UK Corporate Governance Code; the details of which are provided in Annex 1.

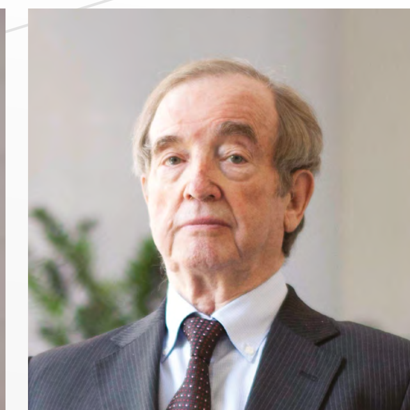
FIGHT AGAINST FINANCIAL CRIME

Crystal is committed to the fight against financial crime. In 2018, the organisational systems as well as the AML team were strengthened substantially. The following achievements of 2018 are of particular note:

- Improved quality of reporting to the financial monitoring service;
- Regulated access of sanctioned individuals within the database and an automated procedure;
- A fully established Compliance Department;
- Fulfilment of the recommendations of the Supervisory Board's Internal Audit Committee;
- AML training successfully began in 2018 raising awareness of AML among branch employees.

SUPERVISORY BOARD MEMBERS





Archil Bakuradze

is the Chairman of the JSC MFO Crystal Supervisory Board, leading the Company's Assets and Liabilities Committee. Archil served as Chairman of the Georgian Microfinance Association, and he is a currently a member of its board. He is a Chairman of the Board of Crystal Fund and serves on the Boards of several not-for-profit organisations. Through the Chevening Scholarship from the UK Foreign and Commonwealth Office, Archil received an MBA from the Lancaster University Management School (2004). He is a fellow of the John Smith Trust (2000) and a recipient of the international award of van Heuven Goedhart from the Dutch Refugee Foundation 'Stichting Vluchteling' (2003)

Nikoloz Loladze

the Deputy Chairman chairing the Risk Committee, holds over a decade of experience in economic development issues. Nikoloz is a founder and board member of several prominent businesses and non-profit organisations in Georgia. In his capacity as a governance expert, Nikoloz is an advisor and board member of a variety of business and non-profit organisations, including the Georgian Stock Exchange, JSC Brokerage Company Caucasus Capital Group, JSC Mobile Finance Eurasia, UK-Georgia Professional Network and Anchor Consulting LLC. Mr. Loladze holds postgraduate qualifications in management (Warwick, UK) and physics (Tbilisi, Georgia), as well as certificates in project management, policy analysis and public administration.

Jan Dewijngaert

is the Chairman of the Strategy, Data and Innovations Committee. He serves as Director of private equity for Incofin IM. He was previously a partner at GIMV (2012-2015), a managing director at Eagle Venture Partner (2001-2015), and an analyst, investment manager, senior investment manager, executive senior investment manager and director at GIMV from (1989-2011). He also worked for KBC Bank as an advisor (1983-1989). Mr Dewijngaert graduated as a civil engineer in construction and industrial policy from the Catholic University of Leuven (Belgium). He studied corporate financial strategy in France.

Lilit Gharayan

is a financier and a member of Crystal's Supervisory Board since 11 July 2018. She has extensive experience in leadership as well as holding a consultant position in financial management, risk management and operational management. Since 2015, Mrs Gharayan has been participating in the implementation of SDC, KfW and AFD projects in Georgia and Armenia. She holds an MBA degree with a major in finance from the American University of Armenia and an M.A. from Yerevan State University. Mrs Gharayan is a graduate of the ProCredit Management Academy and is a member of ACCA. She holds MA from Yerevan State University.

Aleem Remtula

is the Chairman of the Environmental and Social Committee. He started his career in corporate finance with JP Morgan. Mr Remtula has nearly two decades of impact investing experience with socially responsible, double and triple bottom line venture capital and private equity funds in the U.S. and Europe. He is a Partner of DWM's private equity team, covering Latin America, Asia and the Caucasus. He received his MBA from Harvard Business School and his B.A. in economics and finance from Princeton University.

Keith Young MBE

is the Chairman of HR, Compensation and Remuneration Committee. He is an Entrepreneur with considerable expertise in the publishing, communications and new technology industries. Keith has been the Executive Chairman of cScape Group plc and on the Board Group NBT plc, he co-founded. He holds a Degree in Economics from the London School of Economics, also has a broad background of investment in and management of companies in a number of other sectors. Keith has been a longstanding investor in JSC Mobile Finance Eurasia, one of the Georgia's pioneers in electronic payments.

MANAGEMENT TEAM

David Bendeliani

is the Chief Financial Officer (CFO) of Crystal. From August 2004 to 2011 he served as the Financial Manager for Crystal Fund. He was managing finance of CHCA from April 1997 to July 2004. Mr. Bendeliani holds a degree in economics from Ivane Javakhishvili Tbilisi State University. He holds certificates in the treasury management of microfinance organisations, strategic planning and change management, microfinance product development, risk management methodology, internal audit development, human resources management and strategic planning programs.

Manuchar Chitaishvili

is the Chief Innovations Officer. In 2005, he was the Acting Head of the Kutaisi Self-governance Department. Since 2001, he has worked in various positions in both the private and public sectors, before joining Crystal in 2006. Mr Chitaishvili holds an M.A. in public administration from the Georgian Institute of Public Affairs and an M.A. in Law from Kutaisi Tsereteli University. He has also undertaken a course in Strasbourg within the Council of Europe.

Kakha Gabeskiria

is the Chief Business Officer. From 2001 to 2009, he worked in mid-level and top managerial positions in the Poti and Zugdidi branches of JSC ProCredit Bank of Georgia. From 2000 to 2001, he served as a loan officer in CHCA. He joined Crystal in 2009. Mr Gabeskiria studied the economics and management at the State Subtropical University of Georgia. He has also completed BFC training in risk management and internal auditing, micro credit and credit scoring. He studied issues of agricultural lending at the Frankfurt School Finance and Management. He attended internal training courses conducted by ProCredit Bank.

crystal
Financial Inclusion Organization

Sergo Nozadze

is the Chief Human and Organisational Development Officer. He has worked for the Human and Institutional Capacity Development Centre, the Human Resources Professionals Association and the Bank Republic in human resource management. He studied at the London School of Business and Finance. Mr Nozadze holds a master's degree in business administration and management from the International Relations University of Georgia. He also studied in the business management faculty of the Tax and Customs Academy of Georgia.

Beka Tsitskishvili

has been serving as the Chief Information Officer since 2018. He was the CIO of the Adjara Group. Mr Tsitskishvili also worked in a leadership positions for Aviator Ltd. and Bank Republic. He is a co-founder of Next Step Ltd. He holds a master's degree in business administration from the Grenoble Graduate School of Business and the Caucasus School of Business, a master's degree in computer science from Ivane Javakhishvili Tbilisi State University, within the faculty of applied mathematics and computer sciences.

COMMITTEE REPORTS

There are six committees under Crystal's Supervisory Board. The committees do not make resolutions, except for some powers when incurring liabilities from current lenders are devolved to ALCO. The committees are in charge of elaborating recommendations for the SB.

HR, Compensation and Remuneration Committee

The Committee is in charge of overseeing HR strategy, performance assessment and the remuneration of Chief Officers as well as the nomination of board members. Nomination of a candidate is founded on the competency-based needs of the board, identified in the course of the evaluation. The Chairman solicits nominations from fellow members of the board or through an open competition. Prior to which, the board defines the selection criteria and thus appropriately assess candidates. The HR, compensation and remuneration committee, based on relevant research and interviews, proposes a candidate for the Supervisory Board to nominate to the shareholders. Following the SB nomination, a shareholder meeting is authorised to appoint a new member of the board, for a maximum duration as defined within the Charter and Shareholder Agreement.

Assets and Liability Committee (ALCO)

The ALCO, which includes the Chairman (Chair of ALCO), investor representative members of the SB, the CEO, the CFO and the CBO, and they convene on a monthly basis.

The purpose of the ALCO is to supervise the assets and liability management process for Crystal, which includes balance and profits, liquidity planning, funding sources, foreign currency mismatch, interest rates, capital adequacy and liquidity risk. The Supervisory Board also discusses reports related macro-economic indicators, market share analysis and reports on business plan implementation.

The list of indicators from the annual budget is monitored by ALCO and may be revised by the Supervisory Board if required.

Risk Committee

The Risk Committee oversees the entirety of potential risks, except those risks covered by ALCO. The objective of the Committee is to study existing credit and operational risks within the organisation, to inform the board of strategic risks faced by the Company, and to provide recommendations for systems and processes to be integrated or improved for managing and reducing risks.

The Committee is a consultative body, which does not make decisions, however it reviews and identifies risk related issues, to be further managed by the Management Team and Chief Officers. Additionally, the Risk Committee provides the board with recommendations on managing and mitigating risks.

Strategy, Data and Innovation Committee

The objective of the Committee is to ensure the implementation of Crystal's strategy. The Committee enables the management and the Supervisory Board to focus on strategic analysis and decision-making processes.

The committee also delivers supervision and implementation of the Company's strategy. The scope of the committee also includes the supervision of innovative projects and the implementation of data transformation strategies.

Environmental and Social Committee

The objective of the Committee is to define the Company's environmental and social mission objectives and to supervise their implementation.

The mandate of the Committee is to outline the principles and activities of the Company's corporate environmental, social responsibility, consumer protection and responsible lending practices, as well as monitor their implementation. The Committee helps the management and Supervisory Board to focus on environmental and social responsibility.

Internal Audit Committee

The Committee was created by the Supervisory Board, mainly to promote and assist internal as well as external auditing. The Committee is represented by members of the board and the head of the Internal Audit Department.

The goals of Internal Audit Committee are to implement internal auditing processes in Crystal, as well as to monitor financial reporting, internal control systems, and the compliance to legislation and regulations of the management team. This allows the Supervisory Board to access a reliable information, from which they will be able to make more robust and sound governance decisions.

crystal

Financial Inclusion Organization

FINANCIAL STATEMENTS

Photo: Archil Gegenava

crystal Financial Inclusion Organization

JSC MICROFINANCE ORGANIZATION CRYSTAL

Consolidated Financial Statements and Independent Auditor's Report For the Year Ended December 31, 2018

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Joint Stock Company Microfinance Organization Crystal (the "Company") and its subsidiary Crystal Group LLC (the "Group") as at December 31, 2018, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

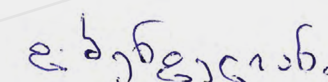
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.
- Disclosing the information in the management report as required by the Law of Georgia on Accounting, Reporting and Auditing;
- Preparation of the management report in consistent with the consolidated financial statements.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with Georgian legislation;
- Taking such steps that are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended December 31, 2018 were authorized for issue on June 25, 2019 by the Board of Directors of the Group.

On behalf of the Board of Directors:
Davit Bendeliani
Chief Financial Officer



June 25, 2019
Tbilisi, Georgia Independent

Deloitte.

Deloitte & Touche LLC
King David Business Center
12 Merab Aleksidze Street
Tbilisi, 0171, Georgia

Tel: +995 (32) 224 45 66
Fax: +995 (32) 224 45 69
deloitte.ge

Independent Auditor's Report

To the Shareholders and the Supervisory Board of Joint Stock Company Microfinance Organization Crystal:

Opinion

We have audited consolidated the financial statements of Joint Stock Company Microfinance Organization Crystal (the "Company") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

© 2019 Deloitte & Touche LLC. All rights reserved.

Deloitte.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Allowances for expected credit losses on loans and advances to customers The Group has early adopted IFRS 9 Financial Instruments with a date of initial application of January 1, 2016 and applied it for the first time in the consolidated financial statements for the year ended December 31, 2016. Assessment of a significant increase in credit risk and risk of default and measurement of expected credit losses on loans and advances to customers is performed on a collective basis for loans and advances to customers with shared risk characteristics. The measurement of expected credit losses (ECL) involves application of models and techniques based on reasonable and supportable historical and forward-looking information available from external and internal sources, and requires use of complex and subjective management's judgments. Key areas of judgment relate to the identification of a significant increase in credit risk or the events of default and allocation of loans and advances to the appropriate stage of impairment. Due to the complexity of methodology, subjectivity of certain assumptions used in the impairment models and the significance of loans and advances to customers, this issue was identified as a key audit matter. Details on the use of judgments, estimates, and assumptions are discussed in Note 3.	We obtained understanding of the Group's processes and control procedures in respect of assessment and measurement of expected credit losses, including the assessment of a significant increase in credit risk and risk of default. Our procedures aimed at the assessment of ECL methodology and models' inputs and assumptions included the following: • we checked that the ECL methodology has been applied consistently compared to the previous year; • we challenged management's assumptions in respect of probability of default, loss given default and exposure at default calculations and analyzed whether principal assumptions are in line with current industry practices and reflect the existing economic environment as well as the Group's prior experience; • we assessed appropriateness of management's judgments in determining significant increase in credit risk and risk of default; • on a risk based sample basis, using all available information on selected loans and advances to customers, we assessed the correctness of impairment staging; • for a sample of loans and advances, we performed alternative calculations and compared the results obtained with the calculations of management; • we checked completeness and accuracy of data used in models for calculating expected credit losses. We analyzed the possible impact of events that were not taken into account in the expected credit losses calculation models used by management and evaluated their effect.

Other Information

Management is responsible for the other information. The other information comprises the management report prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

Our opinion on the consolidated financial statements does not cover the management report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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.

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.

Report on Other Legal and Regulatory Requirements

Management is responsible for the preparation of the management report in accordance with the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of the management report that is free from material misstatement, whether due to fraud or error.

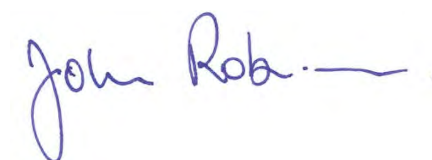
We performed procedures with respect to whether the management report is prepared in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing and includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

We have selected and performed procedures based on our judgment, including but not limited to inquiries, analysis and review of documentation, comparison of the Company's policies, procedures, methodologies and reported information with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, as well as recalculations, comparisons and reconciliations of numeric values and other information.

In our opinion:

- The management report for the year ended December 31, 2018 is prepared in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing;
- The management report for the year ended December 31, 2018 includes the information required by the Law of Georgia on Accounting, Reporting and Auditing;
- The information provided in the management report for the year ended December 31, 2018 is consistent, in all material respects, with the financial statements for the year ended December 31, 2018.

John Robinson
on behalf of Deloitte and Touche LLC



June 25, 2018
Tbilisi, Georgia

	Notes	2018	2017
Interest income	5	72,743	53,847
Interest expense	5	(20,220)	(13,754)
Net interest income before impairment losses on interest bearing assets		**52,523**	**40,093**
Impairment losses on interest bearing assets	12	(8,544)	(3,712)
Net interest income		**43,979**	**36,381**
Fee and commission income	6	2,452	1,719
Net loss on financial assets and liabilities at fair value through profit or loss		(1,523)	(3,877)
Net foreign exchange (loss)/gain		(6,205)	893
Other operating income		111	30
Net non-interest expenses		**(5,165)**	**(1,235)**
Operating income		**38,814**	**35,146**
Personnel expenses	7	(17,870)	(14,157)
Depreciation and amortization expenses	13, 14	(2,405)	(1,919)
Other operating expenses	8	(11,360)	(9,005)
Profit before income tax		**7,179**	**10,065**
Income tax expense	9	(1,746)	(1,930)
Net profit for the year		**5,433**	**8,135**
Other comprehensive income		-	-
Total comprehensive income for the year		**5,433**	**8,135**

On behalf of the Board of Directors:
Davit Bendeliani
Chief Financial Officer

June 25, 2019
Tbilisi, Georgia

The notes on pages 63-141 form an integral part of these consolidated financial statements.

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Cash and cash equivalents	10	13,953	14,320
Financial assets at fair value through profit or loss	11	442	1,585
Loans to customers	12	264,608	198,045
Property and equipment	13	7, 699	5,309
Intangible assets	14	1,552	1,325
Deferred tax assets	9	2,500	1,954
Other assets	15	4,293	3,615
Total assets		**295,047**	**226,153**
LIABILITIES			
Financial liabilities at fair value through profit or loss	11	1,659	591
Borrowed funds	16	230,917	167,700
Debt securities issued	17	9,945	9,880
Current income tax liability		104	297
Other liabilities	18	1,435	1,369
Total liabilities		**244,060**	**179,837**
EQUITY			
Share capital	19	3,061	3,052
Share premium	19	12,718	12,551
Share based payment reserve	19	-	68
Retained earnings		35,208	30,645
Total equity		**50,987**	**46,316**
Total liabilities and equity		**295,047**	**226,153**

FINANCIAL STATEMENT

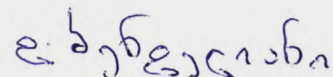
On behalf of the Board of Directors:
Davit Bendeliani
Chief Financial Officer

June 25, 2019
Tbilisi, Georgia

The notes on pages 63-141 form an integral part of these consolidated financial statements.

	Notes	Share capital	Share premium	Share based payment reserve	Retained earnings	Total
January 1, 2017		**3,024**	**12,130**	**362**	**23,510**	**39,026**
Total comprehensive income for the year		-	-	-	8,135	8,135
Dividends declared and paid	19	-	-	-	(1,000)	(1,000)
Share based payment accrual		-	-	155	-	155
Increase in share capital arising from share based payment	19	28	421	(449)	-	-
December 31, 2017		**3,052**	**12,551**	**68**	**30,645**	**46,316**
Total comprehensive income for the year		-	-	-	5,433	5,433
Dividends declared and paid	19	-	-	-	(870)	(870)
Share based payment accrual	19	-	-	108	-	108
Increase in share capital arising from share based payment	19	9	167	(176)	-	-
December 31, 2018		**3,061**	**12,718**	**-**	**35,208**	**50,987**

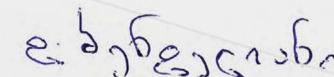
On behalf of the Board of Directors:
Davit Bendeliani
Chief Financial Officer



June 25, 2019
Tbilisi, Georgia
The notes on pages 63-141 form an integral part of these consolidated financial statements.

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		7,179	10,065
Adjustments for:			
Net loss on financial assets and liabilities at fair value through profit or loss		1,523	3,877
Depreciation and amortization expenses	13, 14	2,405	1,919
Interest income	5	(72,743)	(53,847)
Interest expenses	5	20,220	13,754
Impairment losses on interest bearing assets	12	8,544	3,712
Net foreign exchange loss / (gain)		6,205	(893)
Loss on disposal of property and equipment	8	27	37
Equity settled share-based payments		108	155
Cash outflow from operating activities before changes in operating assets and liabilities		**(26,532)**	**(21,221)**
Changes in operating assets and liabilities:			
Decrease in financial assets and liabilities at fair value through profit or loss		688	2,786
Increase in loans to customers		(71,549)	(56,732)
Increase in other assets		(682)	(1,334)
Increase in other liabilities		50	294
Net changes in operating assets and liabilities		**(71,493)**	**(54,986)**
Interest received		69,187	52,898
Interest paid		(20,074)	(13,093)
Income tax paid		(2,485)	(2,960)
Net cash used in operating activities		**(51,397)**	**(39,362)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	13	(4,476)	(2,437)
Purchases of intangible assets	14	(597)	(432)
Proceeds from sale of property and equipment		24	31
Net cash used in investing activities		**(5,049)**	**(2,838)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowed funds	16	130,757	118,487
Repayments of borrowed funds	16	(74,175)	(81,371)
Proceeds from issue of debt security	17	-	9,871
Dividends paid	19	(870)	(1,000)
Net cash provided by financing activities		**55,712**	**45,987**
Net (decrease) / increase in cash and cash equivalents		**(734)**	**3,787**
Effect of exchange rate changes on the balance of cash held in foreign currencies		367	178
Cash and cash equivalents as at the beginning of the year	10	14,320	10,355
Cash and cash equivalents as at the end of the year	10	**13,953**	**14,320**

On behalf of the Board of Directors:
Davit Bendeliani
Chief Financial Officer



June 25, 2019
Tbilisi, Georgia
The notes on pages 63-141 form an integral part of these consolidated financial statements.

1. ORGANIZATION

JSC Microfinance Organization Crystal ("the Company") was established on August 23, 2007 on the basis of the decision of the Crystal Fund (Board's Resolution #20, August 21, 2007) according to the Georgian Law on Microfinance Organizations dated 18 July 2006.

On January 26, 2018 the Company established 100% subsidiary – Crystal Group LLC. The subsidiary has not started the operations yet and its major activities will be exporting of know-how in the field of microfinance and financial technologies to foreign markets.

The legal address of JSC Microfinance Organization Crystal and Crystal Group LLC (the "Group") is 22 Nikea Street, Kutaisi, Georgia.

The supreme governing body of the Group is the General Meeting of Shareholders.

The supervision of the Group's operations is conducted by the Supervisory Board, members of which are appointed by the General Meeting of Shareholders. Daily management of the Group is carried out by the Board of Directors appointed by the Supervisory Board.

The Group objectives are to support and develop micro, small and medium businesses in Georgia, to improve the social and economic conditions of clients by providing them with accessible financial services.

The main activity of the Group is micro lending. The Group's financial products are: individual business loans, agro loans, consumer loans, pawnshop loans, housing loans, Company loans, etc.

The Group has forty branches and twenty two service centers (so called "boutiques") around Georgia and the head office is located in Kutaisi (2017: forty branches and sixteen service centers).

As at December 31, 2018 and 2017 the following shareholders owned the Group:

	December 31, 2018	**December 31, 2017**
First level shareholders/holders of the issued share capital:		
Fund Crystal	47.37%	47.52%
AGRIF COÖPERATIEF U.A.	37.12%	37.23%
DWM Funds S.C.A-SICAV SIF	12.37%	12.41%
Management of the Group	3.14%	2.84%
Total	**100%**	**100%**

As at December 31, 2018 and 2017 the Group's major shareholder is Fund Crystal with 47.37% and 47.52% shareholding, respectively.

Fund Crystal is a not-for-profit corporation under the laws of Georgia and as such, its Members hold no ownership in the fund and have no economic rights. As at December 31, 2018 and 2017, the Members and ultimate controlling parties of the fund are as follows: Archil Bakuradze, Paata Tsotsonava, Alu Gamakharia, Frederick Rignold Hyde-Chambers, Keith Young and Nikoloz Gegeshidze. Members have equal voting rights in Fund Crystal.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

These consolidated financial statements are presented in *thousands, Georgian Lari ("GEL")*, unless otherwise indicated.

These consolidated financial statements have been prepared on the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 Group 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 consolidated financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised 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.

The Group is registered in Georgia and maintains its accounting records in accordance with Georgian law. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Group presents its consolidated statement of financial position broadly in order of liquidity.

An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 25.

Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary of the economic environment in which the Group operates ("the functional currency"). The functional currency of the Group is the Georgian Lari ("GEL").

The presentational currency of the consolidated financial statements of the Group is the GEL. Financial information presented in GEL is rounded to the nearest thousands, except when otherwise indicated.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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 the consolidated statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies are set out below.

Recognition of interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest method by applying the effective interest rate.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.
- financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

When calculating the effective interest rate, the Group estimates the expected cash flows by considering all the contractual terms of the financial instrument excluding expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Recognition of fee and commission income

Financial instrument origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the financial instrument.

Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided.

All other fee and commissions are recognized when services are provided.

Financial instruments

For the year ended December 31, 2016, the Group has early adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of January 1, 2016. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2016.

See below explanations, for more information and details of how the Group applies the requirements of IFRS 9.

Initial recognition of financial instruments

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

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

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

- if 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, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss).
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

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).

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

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

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

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

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.

On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group's financial assets classified into the measurement categories are as following:

Financial assets	Business model	SPPI	Measurement category
Derivative financial assets	Other business model	Cash flows are not solely payments of principal and interest	FVTPL
Cash balances in banks	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Loans to customers	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Other receivables	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost

Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable rate features;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described below.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and unrestricted balances in banks with original maturity of less or equal to 90 days and are free from contractual encumbrances. Cash and cash equivalents are carried at amortised cost.

Loans to customers and other receivables

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

Derivative financial instruments

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

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

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

Impairment

The Group recognises loss allowances for expected credit losses (ECLs) on the financial assets that are not measured at FVTPL.

With the exception of purchased or originated credit-impaired ("POCI") financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

Loss allowances for other receivables are always measured at an amount equal to lifetime ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

The Group measures ECL on a collective basis for portfolios of loans that share similar economic risk characteristics.

More information on measurement of ECLs is provided in Note 25, including details on how instruments are grouped when they are assessed on a collective basis.

Credit-impaired financial assets
A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default.

The definition of default (see below) includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired financial assets
POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default
Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

See Note 25 for more details about default definition.

Significant increase in credit risk
The Group monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Group monitors all financial assets that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group 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 Group 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 Group's historical experience and expert credit assessment including forward-looking information.

See Note 25 for more details about forward looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

Forward-looking information includes the future prospects of Georgian economy obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information.

The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. 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.

The PDs used are forward looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. The Group considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

More information about significant increase in credit risk is provided in Note 25.

Presentation of allowance for ECL in the consolidated statement of financial position
Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the consolidated statement of financial position as the carrying amount is at fair value.
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Modification and derecognition of financial assets
A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan terms is modified in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to other terms.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition.

For financial assets modified as part of the Group's restructuring policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar restructuring action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

Write-off
Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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

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

Share based payment reserve
Share-based compensation benefits are provided to employees via the Management Incentive Plan. Information relating to this plan is set out in Note 7.

The fair value of deferred shares granted to employees is measured at the grant date of the shares and is recognised in equity in the share-based payment reserve. The number of shares expected to vest is estimated based on the non-market vesting conditions. The estimates are revised at the end of each reporting period and adjustments are recognised in profit or loss and the share-based payment reserve.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Georgian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

Other financial liabilities
'Other financial liabilities', including borrowed funds, debt securities issued and other non-derivative financial liabilities are initially measured at fair value, net of transaction costs.

'Other financial liabilities' are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" above.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Foreign currencies

In preparing the consolidated financial statements, transactions in currencies other than the Group's functional currency 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 retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated 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 retranslated.

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

	December 31, 2018	December 31, 2017
GEL/1 US Dollar	2.6766	2.5922
GEL/1 Euro	3.0701	3.1044

Property and equipment

Property and equipment is carried at historical cost less accumulated depreciation and any recognized impairment loss, if any.

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the entity, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

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:

Buildings	30 years
Vehicles	5 years
Furniture	3 to 6 years
IT equipment	3 to 6 years
Leasehold improvement	3 to 5 years
Other	2 to 6 years

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

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 cost to sell and value in use. Where carrying values exceeded the estimated recoverable amount, assets are written down to their recoverable amount; impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

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 lives range from 5 to 10 years.

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.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Intangible assets are assessed for impairment when there is an indication that the intangible assets may be impaired.

Impairment of tangible and intangible assets

At the end of each reporting period, the Group 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 Group 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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. The Group 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 fair value and subsequent measured at the lower of carrying amount and fair value less costs to sell.

Taxation

Income tax

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

Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after January 1, 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law initially was effective for financial institutions from January 1, 2019. On December 27, 2018, the parliament of Georgia extended effective date of application of the law to January 1, 2023.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings

(DE) to mean profit distributed to shareholders as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

Tax reimbursement is available for the current tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2023 or further years.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are paid.

Deferred tax
Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities until 1 January 2023, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available until January 1, 2023 against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from January 1, 2023 and hence, no deferred income tax assets and liabilities will arise, there on.

Operating taxes

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

Employee benefits

Share-based payment arrangements

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-base payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for the differences between expected and actual outcomes.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Provisions

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

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, the Group's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other forward-looking information that are considered to be relevant. Actual results may differ from these estimates.

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.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Classification of financial assets

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Details of the financial assets classification are set out in Note 2.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Loss allowances for expected credit losses

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

- **Establishing forward-looking scenarios:** When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

  See Note 25 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

- **Significant increase in credit risk:** As explained in note 3, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

  See Note 25 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

- **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.

  See Note 25 for more details, including analysis of the sensitivity of the reported ECL to changes in PD.

- **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.

  See Note 25 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD.

Useful lives of property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and less any accumulated depreciation losses. The estimation of the useful life of an item of property and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any one of these conditions or estimates may result in adjustments to future depreciation rates.

Recoverability of deferred tax assets

On June, 2018 the Parliament of Georgia enacted the changes in the Tax Code of Georgia effective from January 1, 2023, for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops. The new code impacts the recognition and measurement principles of the Bank's income tax and it also affects the Bank's deferred income tax assets/liabilities. Commercial banks do not have to pay income tax on their profit before tax (earned since 1 January 2023) until that profit is distributed in a form of dividend or other forms of profit distributions.

Whist this law will come into effect for the banking sector from January 2023, it has a more immediate impact on deferred tax calculations.

The management of the Group is confident deferred income tax assets/liabilities balances will be fully utilised before the effective date of the law or the effect will be immaterial for the users of consolidated financial statements. The carrying value of deferred tax assets amounted to GEL 2,500 thousand and GEL 1,954 thousand as at December 31, 2018 and 2017, respectively.

Fair valuation of financial instruments.

As described in Note 23, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 23 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments

4. AMENDMENTS TO IFRSS AFFECTING AMOUNTS REPORTED IN THE FINANCIAL STATEMENTS

In the current year, the Group has adopted IFRS 15. IFRS 9 Financial Instruments has been early adopted with a date of initial application of January 1, 2016. For details, please refer to Note 3.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
   a. the original liability is derecognised;
   b. the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
   c. any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The adoption of IFRS 2 did not impact the accounting for the effects of vesting and non-vesting conditions applied by the Group.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The adoption of IFRIC 22 did not have a significant impact the Group's consolidated financial statement for the year ended December 31, 2018.

New and revised IFRSs in issue but not yet effective
The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 16 Leases;
- IFRS 17 Insurance Contracts;
- Amendments to IAS 28 – Long-Term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRSs 2015-2017 Cycle
- Amendments to IAS 19 Employee benefits
- Amendments to IFRS 10 Consolidated Financial Statements
- IFRIC 23 Uncertainty Over Income Tax Treatments;

The management of the Group does not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future periods, except for IFRS 16 as described below.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

Management of the Group anticipates that the application of the new standard may have an impact on Group's consolidated financial statements. However, until reliable estimates of the impact are available, further information on the expected impact on the financial position of the Group cannot be provided.

IFRS 17 Insurance Contracts
The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.
The implementation of the Standard is likely to bring significant changes to an entity's processes and systems, and will require much greater co-ordination between many functions of the business, including finance, actuarial and IT.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The management of the Group does not anticipate that the application of the Standard in the future will have an impact on the Group's consolidated financial statements.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The management of the Group does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle
The Annual Improvements include amendments to four Standards.

IAS 12 Income Taxes
The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs
The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
IFRS 3 Business Combinations
The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements
The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

The management of the Group does not anticipate that the application of the Standard in the future will have an impact on the Group's consolidated financial statements.

Amendments to IAS 19 Employee Benefits
The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or

curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied.

The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

The management of the Group does not anticipate that the application of the Standard in the future will have an impact on the Group's consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)
The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.
The management of the Group does not anticipate that the application of the Standard in the future will have an impact on the Group's consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments
IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The management of the Group does not anticipate that the application of the Standard in the future will have an impact on the Group's consolidated financial statements.

5. NET INTEREST INCOME

	2018	2017
Interest income		
Loans to customers	72,694	53,743
Cash and cash equivalents	49	104
	72,743	**53,847**
Interest expenses		
Borrowed funds	(19,052)	(13,745)
Debt securities issued	(1,168)	(9)
	(20,220)	**(13,754)**
Net interest income	**52,523**	**40,093**

6. FEE AND COMMISSION INCOME

	2018	2017
Fee and commission income from foreign currency conversion	2,127	1,449
Fee and commission income from loans to customers	325	270
	2,452	**1,719**

7. PERSONNEL EXPENSES

	2018	2017
Salaries and other benefits	17,588	13,840
Equity settled share-based payments	135	194
Expenses related to Management Incentive Plan	147	123
	17,870	**14,157**

Management Incentive Plan, share based payments

On December 12, 2014 Supervisory Board approved Management Incentive Plan ("MIP"). The purpose of the MIP was to increase motivation and incentivize the Group's management executive team in order to deliver the equity growth strategy, foster and safeguard the interest of the Group, its shareholders and a wider group of stakeholders.

As at December 31, 2017 the remuneration package of the MIP was formed by fulfilment of:

a. Group wide targets - 60% of MIP,
b. Individual targets – 30% of MIP; and
c. Discretionary – 10% MIP.

The remuneration package of the MIP included performance-based incentive pool, divided into: the cash payments (50% of the incentive pool) and equity settled share-based payment (50% of the incentive pool).

Main conditions determined in the MIP were to meet the Group's wide targets for the ratios, for example: gross loan provision, portfolio at risk (PAR)>30, return on assets (ROA), return on equity (ROE), etc.

In light of the changes of the Group's Organizational Structure during 2018, based on Supervisory Board's recommendation dated November 20 2018, the amendments were made to the previously approved "Weighting of Group-wide Targets and MIP Allocation among the Management Team":

a. Overall group milestones-55%
b. Individual targets-30%
c. Skills performance-5%
d. Supervisory Board discretion-10%

Per the management's estimates based on the 2018 results, conditions set in the MIP were not fulfilled, and as at December 31, 2018 the Group did not recognize any incentive pool neither payable in cash, nor settled in ordinary shares. However, the Management Team did fulfill the Performance Related Bonus (PBR) targets, payables in cash, for which the Group recognized respective expense and payable of GEL 147 thousand.

As at December 31, 2018 and 2017 fair value of the shares to be settled as share-based payment was GEL nil and GEL 68 thousand, respectively, comprising nil ordinary shares and 9,297 ordinary shares for meeting the Group wide targets. The fair value of the shares approximates the price at which shares of the Group were sold on an arm's length transactions.

The share-based payment transaction is recognized as an increase in the share based payment reserve in the consolidated statement of changes in equity.

The timeline of the MIP's is summarized in the table below:

MIP year	Status	Basis of transaction	Supervisory board authorization date	Number of ordinary shares
2017	Shares to be settled	Based on fulfillment of Group wide targets	July 11 2018	9,297
2018	Shares to be settled	Based on fulfillment of Group wide targets	N/A	-

8. OTHER OPERATING EXPENSES

	2018	2017
Operating lease rentals	3,776	3,239
Utilities and communication	1,269	962
Bank charges	763	673
Legal and other professional services	556	455
Consumables and office supplies	555	433
Business trips	543	308
Membership fees	483	363
Marketing and advertising	474	492
Fuel	445	343
Insurance	352	71
Taxes other than on income	260	107
Personnel training and recruitment	246	166
Repairs and maintenance	237	161
Security	174	149
Charity	73	119
Other	1,154	964
	11,360	**9,005**

9. TAXATION

	2018	2017
Current year tax expense	2,292	2,427
Movement in deferred tax assets and liabilities due to origination or/and reversal of temporary differences	(546)	(497)
Total income tax expense	**1,746**	**1,930**

The applicable tax rate for current and deferred tax is 15% for the years ended December 31, 2018 and 2017.

Reconciliation of effective tax rate for the year ended December 31:

	2018	2017
Profit before tax	**7,179**	**10,065**
Income tax at the statutory rate	1,077	1,510
Unrecognized deferred tax	638	-
Tax effect of permanent differences	31	420
Total income tax expense	**1,746**	**1,930**

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at December 31, 2018 and 2017.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended December 31 2018 and 2017 are presented as follows.

	January 1, 2018	Recognized in profit or loss	December 31, 2018
Loans to customers	1,706	500	2,206
Property and equipment	30	(67)	(37)
Intangible assets	(13)	31	18
Other assets	-	(85)	(85)
Financial liabilities at fair value through profit or loss	-	146	146
Loans and borrowings	365	24	389
Other liabilities	(134)	(3)	(137)
	1,954	**546**	**2,500**

	January 1, 2017	Recognized in profit or loss	December 31, 2017
Loans to customers	1,137	569	1,706
Property and equipment	17	13	30
Intangible assets	(22)	9	(13)
Other assets	-	-	-
Loans and borrowings	298	67	365
Other liabilities	27	(161)	(134)
	1,457	**497**	**1,954**

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Loans to customers	2,206	1,706	-	-	2,206	1,706
Property and equipment	-	30	(37)	-	(37)	30
Intangible assets	18	-	-	(13)	18	(13)
Other assets	-	-	(85)	-	(85)	-
Financial liabilities at fair value through profit or loss	146	-	-	-	146	-
Loans and borrowings	389	365	-	-	389	365
Other liabilities	-	-	(137)	(134)	(137)	(134)
Net tax assets/(liabilities)	**2,759**	**2,101**	**(259)**	**(147)**	**2,500**	**1,954**

FINANCIAL STATEMENT

10. CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
Cash on hand	9,780	9,816
Bank balances	4,173	4,504
Total cash and cash equivalents	**13,953**	**14,320**

None of the balances with banks are past due. No loss allowance is recognised for balances with banks due to short-term nature. Bank balances include current accounts at banks in Georgia and are used for the purpose of the daily activities of the Group.

As at December 31, 2018 and 2017 the majority of the Group's cash in banks is with banks rated by Fitch Ratings as B (short-term rating), BB- (long-term rating).

11. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2018	December 31, 2017
Financial assets at fair value through profit or loss		
Derivative financial assets		
Foreign currency forward contracts	405	1,410
Currency swap contracts	37	175
Financial assets at fair value through profit or loss	**442**	**1,585**

	December 31, 2018	December 31, 2017
Financial liabilities at fair value through profit or loss		
Derivative financial liabilities		
Foreign currency forward contracts	-	55
Currency swap contracts	1,659	536
Financial liabilities at fair value through profit or loss	**1,659**	**591**

Financial assets and liabilities at fair value through profit or loss comprise foreign currency contracts.

Currency Swaps

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

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

Foreign Currency Forward Contracts

Forwards are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts.

In a foreign currency forwards, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency forwards are gross-settled.

The table below summarizes the undiscounted contractual amounts outstanding at December 31 2018 and 2017 with remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts are recognized in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount	
	December 31, 2018	December 31, 2017
Sell USD buy GEL		
Less than 3 months	13,383	32,837
Between 3 and 12 months	98,767	42,253
	112,150	**75,090**

FINANCIAL STATEMENT

12. LOANS TO CUSTOMERS

	December 31, 2018	December 31, 2017
Principal	267,639	199,467
Accrued interest	7,525	3,969
Less: expected credit losses	(10,556)	(5,391)
Total loans to customers	**264,608**	**198,045**
Analysis by sector:		
Agriculture	79,203	60,970
Service	67,010	55,885
Consumer	64,371	33,730
Trade	42,112	34,562
Pawn shop	13,016	10,085
Manufacturing	9,452	8,204
Total loans to retail customers	**275,164**	**203,436**
Gross loans to customers		
Less: expected credit losses	(10,556)	(5,391)
Net loans to customers	**264,608**	**198,045**

All loans to customers are measured at amortised cost. The loans to customers are classified by types based on a combination of factors (mainly the income source of the borrowers and the purpose of the loan). Loans taken by individual business owners for consumer purposes are presented in relevant categories according to the business activity types of the borrowers (Trade, Service, and Agriculture).

The following table provides information by types of loan products as at December 31, 2018:

	Gross carrying amount	Loss allowance	Carrying amount
Loans to retail customers:			
Agriculture	79,203	(4,229)	74,974
Service	67,010	(2,294)	64,716
Consumer	64,371	(1,748)	62,623
Trade	42,112	(1,801)	40,311
Pawn shop	13,016	(13)	13,003
Manufacturing	9,452	(471)	8,981
Total loans to customers	**275,164**	**(10,556)**	**264,608**

In December 2018 the Group sold part of its impaired and written off loan portfolio amounting to GEL 3,500 thousand (with each individual exposure being up to GEL 2 thousand), under "Loan Forgiveness" initiative to International Charity Foundation Cartu.

The following table provides information by types of loan products as at December 31, 2017:

	Gross carrying amount	Loss allowance	Carrying amount
Loans to retail customers:			
Agriculture	60,970	(2,284)	58,686
Service	55,885	(1,232)	54,653
Consumer	33,730	(679)	33,051
Trade	34,562	(951)	33,611
Pawn shop	10,085	(44)	10,041
Manufacture	8,204	(201)	8,003
Total loans to customers	**203,436**	**(5,391)**	**198,045**

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

	2018			
	Stage 1 12 month ECL	**Stage 2** Lifetime ECL - not credit-impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	2,082	1,826	1,483	5,391
New loans originated	5,295	-	-	5,295
Transfer to 12-month ECL	46	(46)	-	-
Transfer to lifetime ECL not credit-impaired	(5,383)	5,385	(2)	-
Transfer to lifetime ECL credit-impaired	-	(3,308)	3,308	-
Repaid loans	(1,052)	(562)	(172)	(1,786)
Written off for the year	(40)	(45)	(4,312)	(4,397)
Recoveries of previously written off	23	25	1,009	1,057
Changes due to change in credit-risk	2,265	730	2,040	5,035
Foreign exchange gain	(12)	(14)	(13)	(39)
Balance at the end of the year	**3,224**	**3,991**	**3,341**	**10,556**

FINANCIAL STATEMENT

Respective movements in the gross carrying amounts of loans to customers for the year ended December 31, 2018 are as follows:

	2018			
	Stage 1 12 month ECL	**Stage 2** Lifetime ECL - not credit-impaired	**Stage 3** Lifetime ECL –credit-impaired	**Total**
Balance at the beginning of the year	162,909	38,045	2,482	203,436
New loans originated	212,170	-	-	212,170
Transfer to 12-month ECL	3,502	(3,502)	-	-
Transfer to lifetime ECL not credit-impaired	(54,065)	54,082	(17)	-
Transfer to lifetime ECL credit-impaired	-	(7,456)	7,456	-
Repaid loans	(113,789)	(22,199)	(1,155)	(137,143)
Written off for the year	(40)	(45)	(4,312)	(4,397)
Recoveries of previously written off	23	25	1,009	1,057
Foreign exchange loss	31	9	1	41
Balance at the end of the year	**210,741**	**58,959**	**5,464**	**275,164**

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

	2017			
	Stage 1 12 month ECL	**Stage 2** Lifetime ECL - not credit-impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	1,174	1,808	524	3,506
New loans originated	2,940	-	-	2,940
Transfer to 12-month ECL	53	(53)	-	-
Transfer to lifetime ECL not credit-impaired	(1,489)	1,494	(5)	-
Transfer to lifetime ECL credit-impaired	(963)	(932)	1,895	-
Repaid loans	(636)	(661)	(57)	(1,354)
Written off for the year	(64)	(68)	(2,593)	(2,725)
Recoveries of previously written off	55	13	839	907
Changes due to change in credit-risk	1,017	226	883	2,126
Foreign exchange loss	(5)	(1)	(3)	(9)
Balance at the end of the year	**2,082**	**1,826**	**1,483**	**5,391**

Movements in the loan impairment allowance for the year ended December 31, 2017 are as follows:

	2017			
	Stage 1 12 month ECL	**Stage 2** Lifetime ECL - not credit-impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	1,174	1,808	524	3,506
New loans originated	2,940	-	-	2,940
Transfer to 12-month ECL	53	(53)	-	-
Transfer to lifetime ECL not credit-impaired	(1,489)	1,494	(5)	-
Transfer to lifetime ECL credit-impaired	(963)	(932)	1,895	-
Repaid loans	(636)	(661)	(57)	(1,354)
Written off for the year	(64)	(68)	(2,593)	(2,725)
Recoveries of previously written off	55	13	839	907
Changes due to change in credit-risk	1,017	226	883	2,126
Foreign exchange loss	(5)	(1)	(3)	(9)
Balance at the end of the year	**2,082**	**1,826**	**1,483**	**5,391**

Respective movements in the gross carrying amounts of loans to customers for the year ended December 31, 2017 are as follows:

	2017			
	Stage 1 12 month ECL	**Stage 2** Lifetime ECL - not credit- impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	121,725	26,279	1,012	149,016
New loans originated	167,003	-	-	167,003
Transfer to 12-month ECL	4,449	(4,148)	(301)	-
Transfer to lifetime ECL not credit-impaired	(34,560)	34,591	(31)	-
Transfer to lifetime ECL credit-impaired	(3,148)	(2,244)	5,392	-
Repaid loans	(91,409)	(16,096)	(1,826)	(109,331)
Written off for the year	(64)	(68)	(2,593)	(2,725)
Recoveries of previously written off	55	13	839	907
Foreign exchange gain	(1,142)	(282)	(10)	(1,434)
Balance at the end of the year	**162,909**	**38,045**	**2,482**	**203,436**

13. PROPERTY AND EQUIPMENT

	Buildings	Vehicles	Furniture	IT equipment	Leasehold improvements	Property and equipment not yet in use	Other	Total
Cost								
at January 1, 2018	105	650	848	2,072	4,491	-	2,924	11,090
Additions	-	329	112	663	848	1,852	672	4,476
Disposals	-	(38)	(1)	(11)	(168)	-	(2)	(220)
Transfers	-	243	65	214	23	(545)	-	-
at December 31, 2018	**105**	**1,184**	**1,024**	**2,938**	**5,194**	**1,307**	**3,594**	**15,346**
Accumulated depreciation								
at January 1, 2018	(35)	(192)	(482)	(1,119)	(2,190)	-	(1,763)	(5,781)
Depreciation for the year	(3)	(205)	(146)	(351)	(813)	-	(517)	(2,035)
Eliminated on disposals	-	21	-	-	148	-	-	169
at December 31, 2018	**(38)**	**(376)**	**(628)**	**(1,470)**	**(2,855)**	**-**	**(2,280)**	**(7,647)**
Carrying amount								
At December 31, 2018	**67**	**808**	**396**	**1,468**	**2,339**	**1,307**	**1,314**	**7,699**

crystal Financial Inclusion Organization

	Buildings	Vehicles	Furniture	IT equipment	Leasehold improvements	Property and equipment not yet in use	Other	Total
Cost								
at January 1, 2017	105	349	652	1,628	3,725	-	2,406	8,865
Additions	-	338	196	469	913	-	521	2,437
Disposals	-	(37)	-	(25)	(147)	-	(3)	(212)
Transfers	-	-	-	-	-	-	-	-
at December 31, 2017	**105**	**650**	**848**	**2,072**	**4,491**	**-**	**2,924**	**11,090**
Accumulated depreciation								
at January 1, 2017	(32)	(98)	(361)	(892)	(1,577)	-	(1,343)	(4,303)
Depreciation for the year	(3)	(101)	(121)	(247)	(728)	-	(422)	(1,622)
Eliminated on disposals	-	7	-	20	115	-	2	144
at December 31, 2017	**(35)**	**(192)**	**(482)**	**(1,119)**	**(2,190)**	**-**	**(1,763)**	**(5,781)**
Carrying amount								
At December 31, 2017	**70**	**458**	**366**	**953**	**2,301**	**-**	**1,161**	**5,309**

Other property and equipment mainly consist of security systems and generators. As at December 31, 2018 and December 31, 2017 fully depreciated items represented GEL 2,848 and GEL 2,056, respectively. There are no capitalized borrowing costs related to the acquisition or construction of property and equipment during the year ended December 31, 2018 and 2017.

14. INTANGIBLE ASSETS

	Intangible assets
Cost	
at 1 January 2017	**1,938**
Additions	432
at December 31, 2017	**2,370**
Additions	597
at December 31, 2018	**2,967**
Accumulated amortization	
at January 1, 2017	**(748)**
Amortization for the year	(297)
at December 31, 2017	**(1,045)**
Amortization for the year	(370)
at December 31, 2018	**(1,415)**
Carrying amounts	
At December 31, 2017	**1,325**
At December 31, 2018	**1,552**

Intangible assets include software and licenses.

15. OTHER ASSETS

	December 31, 2018	December 31, 2017
Other receivables	1,705	1,470
Total other financial assets	**1,705**	**1,470**
Repossessed assets	547	643
Prepayments	2,041	1,502
Total other non-financial assets	**2,588**	**2,145**
Total other assets	**4,293**	**3,615**

Due to short-term nature of other receivables no ECL loss allowance is recognised as at December 31, 2018 and 2017. Other receivables include money transfer receivables from Paybox Machine Operators that are settled shortly after the reporting date.

16. BORROWED FUNDS

This note provides information about the contractual terms of interest-bearing loans and borrowings which are measured at amortized cost. For more information about exposure to interest rate, foreign currency and liquidity risks, see Note 25.

	December 31, 2018	December 31, 2017
Loans from financial institutions	226,563	163,346
Subordinated debt	4,354	4,354
Total borrowed funds	**230,917**	**167,700**

	December 31, 2018	December 31, 2017
Principal	227,829	164,693
Interest accrued	3,088	3,007
Total borrowed funds	**230,917**	**167,700**

The Group's borrowed funds short-term and long-term classification is as following:

	December 31, 2018	December 31, 2017
Non-current liabilities		
Borrowed funds	157,871	83,736
Current liabilities		
Borrowed funds	73,046	83,964
Total borrowed funds	**230,917**	**167,700**

Subordinated debt

As at 31 December, 2018 and 2017, subordinated debt is unsecured loan received from an international financial organization, KfW maturing in 2019 amounting to GEL 4,354 thousand and GEL 4,354 thousand, respectively with an annual interest rate of 11%.

In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Group.

Terms and debt repayments

Terms and conditions of outstanding borrowed funds are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2018 Carrying Amount	December 31, 2017 Carrying Amount
Unsecured loans from financial institutions	USD	5.7% - 9.58%	2018 – 2023	127,348	102,568
Unsecured loans from financial institutions	GEL	10% - 14.75%	2018 – 2024	98,763	59,409
Unsecured loans from financial institutions	EUR	5%-7%	2018 – 2022	452	1,369
Unsecured subordinated debt	GEL	11%	2019	4,354	4,354
Total borrowed funds				**230,917**	**167,700**

Reconciliation of changes arising from financing activities

	January 1, 2018	Receipt of loans during the year 2018	Repayment of loans during the year 2018	Interest accrual during the year 2018	Interest paid during the year 2018	Foreign exchange loss during the year 2018	December 31, 2018
Borrowed funds	**167,700**	**130,757**	**(74,175)**	**19,052**	**(18,971)**	**6,554**	**230,917**

Unused credit line facilities

On 5 March 2018 the Group signed a credit line agreement with JSC Pasha Bank Georgia with an available facility of GEL 3,000 thousand expiring in 2019.

On 12 April 2018 the Group signed a credit line agreement with JSC TBC Bank with an available facility of GEL 5,000 thousand expiring in 2019.

On 30 April 2018 the Group signed a credit line agreement with JSC Pasha Bank Georgia with an available facility of GEL 1,000 thousand expiring in 2019.

On 18 May 2018 the Group signed 2 credit lines (each in the amount of GEL 5,000 thousand) agreements with JSC TBC Bank with an available facility of GEL 10,000 thousand expiring in 2019.

On 21 June 2018 the Group signed a credit line agreement with JSC TBC Bank with an available facility of GEL 2,400 thousand expiring in 2019.

On 10 August 2018 the Group signed a credit line agreement with JSC TBC Bank with an available facility of GEL 5,000 thousand expiring in 2019.

On 24 October 2018 the Group signed a credit line agreement with JSC Bank of Georgia with an available facility of EUR 500 thousand expiring in 2019.

Covenant requirements

The Group is obligated to comply with financial covenants in relation to borrowed funds disclosed above. These covenants include stipulated ratios, as well as leverage, liquidity, profitability and risk coverage ratios.

As at December 31, 2018 the Group breached Annual Income for 2018 covenant under the lending arrangement with JSC TBC Bank. On May 3, 2019 the Group received waiver letter from JSC TBC Bank that waives the breach of covenant for the year 2018. As a result, the Bank is not going to request neither an immediate nor any kind of early repayment of its loans.
According to IAS 1 "Presentation of Financial Statements" the management classified borrowed funds from JSC TBC Bank as current liabilities in the amount of GEL 12,004 thousand. Liability is also presented in up to 1-month maturity category for liquidity risk management disclosure purposes as at December 31, 2018 in Note 25.

As at December 31, 2018 the Group was in breach of Equity to Assets Ratio required by funds (The European Fund for Southeast Europe S.A., SICAV-SIF and Green for Growth Fund, Southeast Europe S.A., SICAV-SIF) managed by Finance in Motion GmbH. The Group notified the funds and obtained the waiver letters prior to year-end 2018. As a result, the respective liabilities are not immediately repayable and are not presented in up to 1-month maturity category for liquidity risk management disclosure purposes as at December 31, 2018 in Note 25.

These liabilities are measured at amortised cost.

17. DEBT SECURITIES ISSUED

This note provides information about the contractual terms of debt securities issued which are measured at amortized cost. For more information about exposure to interest rate, foreign currency and liquidity risks, see Note 25.

	December 31, 2018	December 31, 2017
Principal	9,871	9,871
Interest accrued	74	9
Total debt securities issued	**9,945**	**9,880**

The Group's debt securities issued short-term and long-term classification is as following:

	December 31, 2018	December 31, 2017
Non-current liabilities		
Debt securities issued	-	9,871
Current liabilities		
Debt securities issued	9,945	9
Total debt securities issued	**9,945**	**9,880**

FINANCIAL STATEMENT

Corporate bond

Debt securities issued includes Corporate Bond. On December 28, 2017 the Group issued corporate bond with a face value of GEL 10 million maturing in December 2019. The bond bears a contractual rate of interest of 4.5% over the National Bank of Georgia's refinancing rate per annum on the notional amount.

Terms and debt repayment

Terms and conditions of outstanding debt securities are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2018 Carrying Amount	December 31, 2017 Carrying Amount
Debt securities issued	GEL	4.5%+NBG refinancing rate	2019	9,945	9,880
Total debt securities issued				**9,945**	**9,880**

Reconciliation of changes arising from financing activities

	January 1, 2018	Receipt of debt securities during the year 2018	Repayment of debt securities during the year 2018	Interest accrual during the year 2018	Interest paid during the year 2018	Foreign exchange gain during the year 2018	December 31, 2018
Debt securities issued	9,880	-	-	1,168	(1,103)	-	**9,945**

18. OTHER LIABILITIES

	December 31, 2018	December 31, 2017
Other payables	692	476
Total other financial liabilities	**692**	**476**
Accruals for employee compensation	579	847
Taxes other than on income	83	11
Other non-financial liabilities	81	35
Total other non-financial liabilities	**743**	**893**
Total other liabilities	**1,435**	**1,369**

Accruals for employee compensation includes amount payable to employees in respect of the management incentive plan, which was settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment.

The details of management incentive plan is provided in Note 7.

19. SHARE CAPITAL AND RESERVES

Share capital

Share capital as at December 31, 2018:

Shareholder	Number of shares	Common/ non-redeemable preference	Share %	Voting rights	Capital GEL'000
Fund Crystal	1,450,192	Common	47.37%	47.37%	1,450
AGRIF COÖPERATIEF U.A.	1,136,157	Common	37.12%	37.12%	1,136
DWM Funds S.C.A-SICAV SIF	378,719	Common	12.37%	12.37%	379
Management of the Group	96,114	Common	3.14%	3.14%	96
	3,061,182		**100.00%**	**100.00%**	**3,061**

FINANCIAL STATEMENT

Share capital as at December 31, 2017:

Shareholder	Number of shares	Common/ non-redeemable preference	Share %	Voting rights	Capital GEL'000
Fund Crystal	1,450,192	Common	47.52%	47.52%	1,450
AGRIF COÖPERATIEF U.A.	1,136,157	Common	37.23%	37.23%	1,136
DWM Funds S.C.A-SICAV SIF	378,719	Common	12.41%	12.41%	379
Management of the Group	86,817	Common	2.84%	2.84%	87
	3,051,885		**100.00%**	**100.00%**	**3,052**

All shares have a nominal value of GEL 1 and are fully paid.

All ordinary shares rank equally with regard to the Group's residual assets.

On July 11, 2018 Supervisory Board approved to issue 9,297 ordinary shares to the Management of the Group (for the fulfilment of Group wide targets, individual and discretionary targets in the scope of Management Incentive Plan for 2017).

Share premium

Share premium represents the amount received for a share in excess of its registered value. Hence, can be generated via the same sources as the share capital: 1) actual issuance of shares, and 2) within the MIP.

Share premium was GEL 12,718 thousand and GEL 12,551 thousand for the years ended December 31 2018 and December 31 2017, respectively. The whole movement for the year 2018 is attributable to the MIP 2017 distribution.

Share based payment reserve

At the end of each financial year, having analyzed the preliminary results of the year under consideration and having matched them against the MIP distribution plan for that particular year, the Group creates a share-based payment reserve (2018: nil; 2017: GEL 68 thousand). Please refer to Note 7 for details.

Afterwards, the share based payment reserve might be amended, following the review and approval of the audited financial statements of the Group by the general meeting of shareholders. For the financial results 2017, in 2018 the initially accrued share based payment reserve of GEL 68 thousand was further increased by GEL 108 thousand.

During the year ended December 31 2018, 9,297 shares issued in the scope of Management Incentive Plan of 2017 were registered, thus resulted in decrease in share based payment reserve and increase in the share capital.

During the year ended December 31 2018, share premium of GEL 167 thousand was created in the scope of Management Incentive Plan of 2017, thus resulted in decrease in share based payment reserve and increase in the share premium.

Dividends

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

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

Based on shareholders decision dated 11 July 2018 and 20 June 2017, respectively dividends of GEL 870 thousand and GEL 1,000 thousand, were declared and paid.

20. OPERATING LEASES

Leases as lessee

Majority of lease agreements are cancellable upon the Group giving notice to the landlord. Notice periods generally vary from one to three months. Non-cancellable minimum lease rentals are payable as follows:

	December 31, 2018	December 31, 2017
Less than 1 year	**443**	**399**

The Group leases a number of premises under operating leases. The leases typically run for an initial period of three to five years, with an option to renew the lease after the expiry date. Lease payments are usually adjusted every two or three years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

21. CONTINGENCIES

Litigation

In the ordinary course of business, the Group 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.

Taxation contingencies

Commercial legislation of Georgia, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

Georgian transfer pricing legislation was amended starting from January 1, 2014 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. The impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Operating environment
Emerging markets such as Georgia are subject to different risks than more developed markets; these include economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to evolve rapidly with tax and regulatory frameworks subject to varying interpretations. The future direction of Georgia's economy is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

For the last two years Georgia has experienced a number of legislative changes, which have been largely related to Georgia's accession plan to the European Union. Whilst the legislative changes implemented during 2017 and 2018 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

22. RELATED PARTY TRANSACTIONS

Control relationships

As at December 31, 2018 the Group's major shareholder and ultimate controlling party is Fund Crystal with 47.37% shareholding (See Note 1).

Transactions with members of the Supervisory and Executive Boards

Total remuneration and management consulting fees included in personnel expenses for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Salaries and bonuses	1,236	729
Share based payment transaction	135	194
Profit sharing plan	147	123
Consulting fees	13	16
	1,531	**1,062**

Total remuneration and management consulting fees payables included in other liabilities as at December 31, 2018 and 2017 is as follows:

	December 31, 2018	December 31, 2017
Share based payment transaction	-	194
Profit sharing plan	147	123
	147	**317**

Other related party transactions

	2018	2017	December 31, 2018	December 31, 2017
Other				
JSC Mobile Finance Services - Georgia*	109	141	-	53
	109	**141**	**-**	**53**

* JSC Mobile Finance Services – Georgia is owned by three members of Supervisory Board of the Group.

23. 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 Group 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 hierarchy

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

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

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)
For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and current accounts without a maturity.

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

Other financial assets and 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 – The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received 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.

Borrowed funds and debt securities issued – The fair values of subordinated debt and debt securities issued is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using current interest rates of new instruments. For the borrowings received at variable rates management believes that carrying rate may be assumed to be market interest rate.

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	Fair value hierarchy	December 31, 2018		December 31, 2017	
		Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	Level 1	13,953	13,953	14,320	14,320
Loans to customers	Level 3	264,608	271,584	198,045	201,893
Other financial assets	Level 3	1,706	1,706	1,470	1,470
Borrowed funds	Level 3	230,917	231,292	167,700	166,448
Debt securities issued	Level 3	9,945	9,945	9,880	9,880
Other financial liabilities	Level 3	692	692	476	476

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

Derivative financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Derivative financial instruments	Fair value as at December 31, 2018	Fair value as at December 31, 2017	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss	442	1,585	Level 2	Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates.	N/A	N/A
Financial liabilities at fair value through profit or loss	1,659	591	Level 2			

The Group uses widely recognised valuation models for determining the fair value of derivative financial instruments, like foreign exchange forward contracts and currency swaps that use only observable market data and require less management judgment and estimation.

FINANCIAL STATEMENT

24. CAPITAL MANAGEMENT

The Group's objectives when maintaining capital are:

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

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

The Group is in compliance with minimum statutory capital requirements – the minimum cash contribution in the equity should not be less than 500 thousand (2017: GEL 250 thousand).

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

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

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

The below table discloses the compliance with NBG CAR ratio as at December 31 2018 (December 31 2017: n/a).

	2018
Share capital	3,061
Share premium	12,718
Retained earnings	35,208
Regulatory capital before reductions	**50,987**
Less intangible assets	1,552
Regulatory capital	**49,435**

	2018
Total assets before reductions	295,047
Less intangible assets	1,552
Total assets after reductions	**293,495**

	December 31 2018
Capital adequacy ratio	16.84%

The Group also monitors its capital adequacy levels to comply with debt covenants, calculated in accordance with the lenders requirements. See Note 16 for the details of compliance with covenants.

25. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the business and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk and liquidity risk.

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

The Supervisory Board, together with its committees, has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Group's Executive Board Risk Committee and the Finance Department are responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Executive Board.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees depending on the type and amount of the exposure.

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group has policies and procedures for the management of credit exposures, including the establishment of Credit Committees, the analytical bodies responsible for analysing the information in the loan applications, assessing and reducing the credit risks. The credit policy (in the form of a Credit Manual) is reviewed and approved by the Supervisory Board.

The credit policy establishes:

- Procedures for reviewing and approving loan credit applications;
- Methodology for the credit assessment of borrowers;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

The Credit Committee is authorized to make the final decision about financing or rejecting the loan applications. The loans presented to the Committee for approval are based on limits established by the credit policy.

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

Assessment of the applicant's creditworthiness through monitoring of its business allows timely avoidance the risk of financial loss. Monitoring is performed by credit officers who report the results to the management. Regular monitoring of loans is also performed by the Monitoring Department. For timely response to potential risks, monitoring results are presented to the top management on monthly basis. The monitoring system helps to manage credit risks and to minimize them in a timely manner.

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

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position.

As at December 31, 2018 and 2017, the Group has no debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to the credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Upon disbursement of a loan, an exposure score is assigned based on the predetermined criteria, which is later reflected in grades.

Grades upon disbursement of a loan:

A > 87 scores
B 82-87 scores
C 71-81 scores
C1 not applicable (agro cards and seasonal loans, to which rating is not applied)

Grades in case of arrears:

C3 1-30 day arrears
D 31-60 day arrears
D1 61-90 day arrears
D2 91-120 day arrears
D3 121-180 arrears
E 181 day arrears

Grades for restructured loans:

R1 current restructuring and restructuring for 1-90 day arrears
R2 restructuring for arrears >90 days

Grading for pawnshop portfolio:

P the entire pawnshop portfolio falls in the given grade

Default grades:

D2, D3, E, R2 - the Group uses different provisioning rates in accordance with the rule given below:

Loans that were in D2, D3 grades previously and have been restructured are transferred to R2.

Watch loans:

The given group includes the loans which have awarded grades D, D1 due to past arrears but have no delinquency any more, R1 and the loans, which have been transferred to grade C2 by the Risk Department in accordance with the special rules given below (scores do not apply here).

Grade changes

Migration is allowed between A, B, C, C1 grades, change depends on the rating modification which is calculated as a result of the closest financial analysis.

Any loan from C3 grade, which is no longer in arrears, move to A, B, C and C1 grades.

If loans from D and D1 grades are no longer in arrears, they move to C2 grade. In case of arrears, a loan goes back to the relevant grade (by grade of arrears).

If payments are duly made of R1 grade loans for at least 6 months and at least 50% of annual instalment is repaid, additional financial analysis is performed. Based on the Risk Committee decision and by the will of the client refinancing may be applied though disbursement of a new loan. Such loan is assigned to C2 grade right upon its disbursement.
D2, D3, E and R2 loans permanently remain in the given grades.

In case of parallel loans, the following rationale applies:

- If a client has at least one delinquent loan, all of the loans of the client will fall into the grade, having the largest ECL rate out of the existing loans.
- If a client has at least one restructured loan, all the loans of the client should be included in the restructuring grade. Restructuring takes over delinquency. Therefore, if a client has 1 restructured loan and 1 – delinquent, both of them will be included in the restructuring grade.
- If a client has parallel loans with none of them being delinquent, restructured or included in C1, C2 categories, all of them should be awarded the grade, which has been assigned to the loan most recently disbursed. For instance, if a client had one loan in grade A, disbursed in 2015 and he takes another loan in 2018 under grade B, both loans will be included in grade B, as this is the grade of the most recently disbursed loan.
- If a client has parallel loans with none of them being delinquent or restructured and meantime, with one of them being in grade C1, C1 loan should also be awarded the grade, which has been assigned to the loan most recently disbursed (except of this loan).
- If a client has parallel loans with none of them being delinquent or restructured and meantime, with one of them being in grade C2, all the loans of the client should be awarded C2 category.

If the level of risk substantially increases for A, B, C, C1 grade loans, that is, if for the moment of reporting the probability of default 1,5 times exceeds the rate observed at the time of disbursement, the loans will be transferred to C2 grade. Probability of default is checked once a year.

In case if increased risks are detected with respect to A, B, C and C1 loans, they may be transferred to C2 grade based on the following groups:

- Loan officer;
- Branch;
- Location (city; region);
- Client sub-sector (livestock, greenhouses, internal transportation and etc.);
- Any specific loan;
- Any specific client.

Recommendation on transfer of loans to C2 grade by the given groups is made by the Risk Department of the Group based on respective analysis and approval by the Executive Board. The following circumstances should serve as a basis for the recommendation:

- Expected low yield or low prices on certain agricultural crops;
- Expected financial shocks and volatility is some business sector;
- Expected political or criminal tension in a specific region or city;
- Expected high risks in a certain branch, where internal fraud has been identified.

The branch is characterised by low degree of risk identification or high-risk appetite:

- A certain branch has been included in the watch list based on its risk indicator;
- Inexperienced branches, launched in regions unfamiliar for Group;
- A loan officer, who has been included in the watch list based on risk indicator;
- A client, who has been included in the watch list, which actions are suspicious, brings suspicious clients, there are reasonable grounds to suspect that the client is related to other clients. Suspicious activities are based on the findings of the internal audit;
- Internal audit report on the high risk of a certain branch;
- Loans, PD of which increased by 50% as at reporting date compared to the origination date;
- Other argument, which is justified with due analysis and assumptions.

Change of grade also occurs for refinancing of a loan; upon disbursement of a new loan, rating is calculated based on updated information.

A, B, C and C1 grade loans, which have been transferred to C2 grade, go back to their original grades if the above mentioned risk factors no longer exist.

D and D1 go back to their original grades based on days in arrears.

Definition of default

The Group 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
- Pawnshop default point is arrears >30 days

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

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

Significant increase in credit risk

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

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

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

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

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

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and
- There is no unwarranted volatility in loss allowance from transfers between 12-months PD (probability of default) and lifetime PD.

Staging

Throughout their lifetime loans move across three different stages:

Stage 1 - A, B, C, C1, C3 – low risk loans
Stage 2 - C2, R1, D, D1 - significant credit deterioration
Stage 3 - D2, D3, R2, E - default grades

Portfolio segmentation

For the purpose of portfolio segmentation, according to the homogeneity of the risk of portfolio grouping, the portfolio is divided in two groups: up to GEL 3,000 and more than GEL 3,000. The Client's overall exposure to the Group as at reporting date is considered for this analysis. PD is calculated separately for each of the above mentioned groups.

The client exposure is further broken down into collateralized and non-collateralized loans, as the two display different characteristics and bear different risks.

Incorporation of forward-looking information

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

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

- Real growth rate of GDP of Georgia;
- Inflation rate;
- Monetary policy interest rate;
- Nominal effective exchange rate.

The table below summarizes the principal macroeconomic indicators included in the economic scenarios used at December 31, 2018 for the years 2019 to 2021, for Georgia:

	2019	2020	2021
GDP Growth			
Base scenario	5.0	5.0	5.0
Upside scenario	6.0	5.5	5.0
Downside scenario	2.0	2.5	3.5
Inflation rate			
Base scenario	2.9	3.0	3.0
Upside scenario	3.4	3.2	3.0
Downside scenario	4.5	4.0	3.0
Monetary policy interest rate			
Base scenario	6.5	6.0	5.8
Upside scenario	6.75	6.5	6.5
Downside scenario	7.5	7.5	6.75
Nominal effective exchange rate			
Base scenario	279.5	279.5	279.5
Upside scenario	296.3	305.2	305.2
Downside scenario	259.9	246.9	251.9

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. Based on this analysis, the Group identified portfolio default key relationship with Monetary Policy Interest Rate.

The Group has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by 20%. The table below outlines the total ECL per portfolio as at December 31, 2018, if the assumptions used to measure ECL remain as expected (amount as presented in the consolidated statement of financial position), as well as if each of the key assumptions used change by plus or minus 20%. The changes are applied in isolation for illustrative purposes, and are applied to each probability weighted scenarios used to develop the estimate of expected credit losses. In reality there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

	Average PD	Average LGD	ECL
Monetary policy interest rate			
As expected	31.50%	68.71%	(10,343)
+10%	31.85%	68.71%	(10,370)
-10%	31.13%	68.71%	(10,316)

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.
As at December 31, 2018, 10% increase/(decrease) in average PD per each segment results in ECL increase/(decrease) by 5.3% that represents GEL 548/(548) thousand.

As at December 31, 2017, 10% increase/(decrease) in average PD per each segment results in ECL increase/(decrease) by 7% that represents GEL 388/(388) thousand.

Loss given default (LGD)
LGD is the magnitude of the likely loss if there is a default. The Group 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.

As at December 31, 2018, 10% increase/(decrease) in average LGD per each segment results in ECL increase/(decrease) by 9.3% that represents GEL 962/(962) thousand.

As at December 31, 2017, 10% increase/(decrease) in average LGD per each segment results in ECL increase/(decrease) by 10% that represents GEL 530/(530) thousand.

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

Credit quality of loans to customers

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

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans%
Analysis by sector:							
Agriculture loans							
A	7,556	(81)	-	-	(81)	7,475	1%
B	17,981	(204)	-	-	(204)	17,777	1%
C	24,130	(288)	-	-	(288)	23,842	1%
C1	6,335	(80)	-	-	(80)	6,255	1%
C2	14,898	-	(435)	-	(435)	14,463	3%
C3	1,643	(317)	-	-	(317)	1,326	19%
D	1,141	-	(437)	-	(437)	704	38%
D1	1,036	-	(456)	-	(456)	580	44%
D2	600	-	-	(376)	(376)	224	63%
D3	336	-	-	(211)	(211)	125	63%
E	366	-	-	(268)	(268)	98	73%
R1	2,166	-	(546)	-	(546)	1,620	25%
R2	1,015	-	-	(530)	(530)	485	52%
Total agriculture loans	**79,203**	**(970)**	**(1,874)**	**(1,385)**	**(4,229)**	**74,974**	**5%**

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans%
Service loans							
A	4,702	(52)	-	-	(52)	4,650	1%
B	14,241	(162)	-	-	(162)	14,079	1%
C	33,162	(385)	-	-	(385)	32,777	1%
C1	2,719	(34)	-	-	(34)	2,685	1%
C2	8,332	-	(241)	-	(241)	8,091	3%
C3	965	(186)	-	-	(186)	779	19%
D	338	-	(133)	-	(133)	205	39%
D1	256	-	(122)	-	(122)	134	48%
D2	328	-	-	(214)	(214)	114	65%
D3	256	-	-	(159)	(159)	97	62%
E	128	-	-	(109)	(109)	19	85%
R1	1,135	-	(271)	-	(271)	864	24%
R2	448	-	-	(226)	(226)	222	50%
Total service loans	**67,010**	**(819)**	**(767)**	**(708)**	**(2,294)**	**64,716**	**3%**
Trade loans							
A	2,714	(30)	-	-	(30)	2,684	1%
B	8,170	(93)	-	-	(93)	8,077	1%
C	19,655	(229)	-	-	(229)	19,426	1%
C1	2,185	(27)	-	-	(27)	2,158	1%
C2	6,484	-	(188)	-	(188)	6,296	3%
C3	577	(110)	-	-	(110)	467	19%
D	309	-	(119)	-	(119)	190	39%
D1	184	-	(87)	-	(87)	97	47%
D2	143	-	-	(94)	(94)	49	66%
D3	232	-	-	(146)	(146)	86	63%
E	275	-	-	(234)	(234)	41	85%
R1	659	-	(164)	-	(164)	495	25%
R2	525	-	-	(280)	(280)	245	53%
Total trade loans	**42,112**	**(489)**	**(558)**	**(754)**	**(1,801)**	**40,311**	**4%**

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans%
Consumer loans							
A	6,695	(74)	-	-	(74)	6,621	1%
B	11,389	(132)	-	-	(132)	11,257	1%
C	24,562	(294)	-	-	(294)	24,268	1%
C1	12,965	(156)	-	-	(156)	12,809	1%
C2	6,177	-	(185)	-	(185)	5,992	3%
C3	759	(160)	-	-	(160)	599	21%
D	348	-	(139)	-	(139)	209	40%
D1	203	-	(98)	-	(98)	105	48%
D2	184	-	-	(121)	(121)	63	66%
D3	140	-	-	(88)	(88)	52	63%
E	53	-	-	(46)	(46)	7	87%
R1	711	-	(160)	-	(160)	551	23%
R2	185	-	-	(95)	(95)	90	51%
Total consumer loans	**64,371**	**(816)**	**(582)**	**(350)**	**(1,748)**	**62,623**	**3%**
Pawn shop loans							
P	13,016	-	(13)	-	(13)	13,003	0%
Total pawn shop loans	**13,016**	**-**	**(13)**	**-**	**(13)**	**13,003**	**0%**
Manu-facturing loans							
A	756	(8)	-	-	(8)	748	1%
B	1,250	(14)	-	-	(14)	1,236	1%
C	5,007	(58)	-	-	(58)	4,949	1%
C1	367	(5)	-	-	(5)	362	1%
C2	1,068	-	(31)	-	(31)	1,037	3%
C3	256	(45)	-	-	(45)	211	18%
D	66	-	(25)	-	(25)	41	38%
D1	160	-	(74)	-	(74)	86	46%

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans%
D2	28	-	-	(19)	(19)	9	68%
D3	44	-	-	(28)	(28)	16	64%
E	33	-	-	(23)	(23)	10	70%
R1	272	-	(67)	-	(67)	205	25%
R2	145	-	-	(74)	(74)	71	51%
Total manu-facturing loans	**9,452**	**(130)**	**(197)**	**(144)**	**(471)**	**8,981**	**5%**
Total loans to customers	**275,164**	**(3,224)**	**(3,991)**	**(3,341)**	**(10,556)**	**264,608**	**4%**

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans %
Analysis by sector:							
Agriculture loans							
Not overdue	74,179	(699)	(997)	(521)	(2,217)	71,962	3%
1 to 30 days overdue	1,785	(271)	(62)	(126)	(459)	1,326	26%
31 to 60 days overdue	1,195	-	(415)	(51)	(466)	729	39%
61 to 90 days overdue	1,012	-	(400)	(59)	(459)	553	45%
91 to 180 days overdue	1,032	-	-	(628)	(628)	404	61%
Over 180 days overdue	-	-	-	-	-	-	0%
Total agriculture loans	**79,203**	**(970)**	**(1,874)**	**(1,385)**	**(4,229)**	**74,974**	**5%**

Service loans							
Not overdue	64,734	(644)	(517)	(281)	(1,442)	63,292	2%
1 to 30 days overdue	1,169	(175)	(40)	(61)	(276)	893	24%
31 to 60 days overdue	275	-	(104)	(3)	(107)	168	39%
61 to 90 days overdue	239	-	(106)	(9)	(115)	124	48%
91 to 180 days overdue	593	-	-	(354)	(354)	239	60%
Over 180 days overdue	-	-	-	-	-	-	0%
Total service loans	**67,010**	**(819)**	**(767)**	**(708)**	**(2,294)**	**64,716**	**3%**
Trade loans							
Not overdue	40,223	(388)	(321)	(315)	(1,024)	39,199	3%
1 to 30 days overdue	868	(101)	(52)	(78)	(231)	637	27%
31 to 60 days overdue	338	-	(115)	(25)	(140)	198	41%
61 to 90 days overdue	236	-	(70)	(51)	(121)	115	51%
91 to 180 days overdue	447	-	-	(285)	(285)	162	64%
Over 180 days overdue	-	-	-	-	-	-	0%
Total trade loans	**42,112**	**(489)**	**(558)**	**(754)**	**(1,801)**	**40,311**	**4%**
Consumer loans							
Not overdue	62,835	(679)	(347)	(142)	(1,168)	61,667	2%
1 to 30 days overdue	727	(137)	(25)	(5)	(167)	560	23%
31 to 60 days overdue	340	-	(135)	(5)	(140)	200	41%
61 to 90 days overdue	172	-	(75)	(10)	(85)	87	49%
91 to 180 days overdue	297	-	-	(188)	(188)	109	63%
Over 180 days overdue	-	-	-	-	-	-	0%
Total consumer loans	**64,371**	**(816)**	**(582)**	**(350)**	**(1,748)**	**62,623**	**3%**

Pawn shop loans							
Not overdue	12,573	-	(13)	-	(13)	12,560	0%
1 to 30 days overdue	364	-	-	-	-	364	0%
31 to 60 days overdue	73	-	-	-	-	73	0%
61 to 90 days overdue	4	-	-	-	-	4	0%
91 to 180 days overdue	2	-	-	-	-	2	0%
Over 180 days overdue	-	-	-	-	-	-	0%
Total pawn shop loans	**13,016**	**-**	**(13)**	**-**	**(13)**	**13,0003**	**0%**
Manufacturing loans							
Not overdue	8,778	(93)	(67)	(74)	(234)	8,544	3%
1 to 30 days overdue	374	(37)	(31)	(23)	(91)	283	24%
31 to 60 days overdue	76	-	(25)	(5)	(30)	46	39%
61 to 90 days overdue	160	-	(74)	-	(74)	86	46%
91 to 180 days overdue	64	-	-	(42)	(42)	22	66%
Over 180 days overdue	-	-	-	-	-	-	0%
Total manufacturing loans	**9,452**	**(130)**	**(197)**	**(144)**	**(471)**	**8,981**	**5%**
Total loans to customers	**275,164**	**(3,224)**	**(3,991)**	**(3,341)**	**(10,556)**	**264,608**	**4%**

The following table provides information on the credit quality of loans to customers as at December 31, 2017:

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans%
Analysis by sector:							
Agriculture loans							
A	6,795	(67)	-	-	(67)	6,728	1%
B	15,739	(167)	-	-	(167)	15,572	1%
C	17,005	(197)	-	-	(197)	16,808	1%
C1	3,425	(31)	-	-	(31)	3,394	1%
C2	14,159	-	(375)	-	(375)	13,784	3%
C3	770	(137)	-	-	(137)	633	18%
D	517	-	(177)	-	(177)	340	34%
D1	305	-	(133)	-	(133)	172	44%
D2	418	-	-	(255)	(255)	163	61%
D3	130	-	-	(80)	(80)	50	62%
E	191	-	-	(146)	(146)	45	76%
R1	1,003	-	(242)	-	(242)	761	24%
R2	513	-	-	(277)	(277)	236	54%
Total agriculture loans	**60,970**	**(599)**	**(927)**	**(758)**	**(2,284)**	**58,686**	**4%**
Service loans							
A	3,661	(36)	-	-	(36)	3,625	1%
B	14,358	(153)	-	-	(153)	14,205	1%
C	31,277	(365)	-	-	(365)	30,912	1%
C1	1,124	(10)	-	-	(10)	1,114	1%
C2	3,998	-	(108)	-	(108)	3,890	3%
C3	265	(47)	-	-	(47)	218	18%
D	103	-	(37)	-	(37)	66	36%
D1	93	-	(42)	-	(42)	51	45%
D2	90	-	-	(58)	(58)	32	69%
D3	81	-	-	(50)	(50)	31	68%
E	79	-	-	(62)	(62)	17	80%
R1	470	-	(121)	-	(121)	349	26%
R2	286	-	-	(143)	(143)	143	52%
Total service loans	**55,885**	**(611)**	**(308)**	**(313)**	**(1,232)**	**54,653**	**2%**
Trade loans							
A	2,347	(23)	-	-	(23)	2,324	1%
B	9,408	(100)	-	-	(100)	9,308	1%
C	17,402	(203)	-	-	(203)	17,199	1%
C1	723	(7)	-	-	(7)	716	1%
C2	3,126	-	(84)	-	(84)	3,042	3%
C3	347	(63)	-	-	(63)	284	18%
D	90	-	(33)	-	(33)	57	37%
D1	98	-	(43)	-	(43)	55	44%
D2	81	-	-	(52)	(52)	29	64%
D3	65	-	-	(39)	(39)	26	60%
E	27	-	-	(23)	(23)	4	85%
R1	616	-	(155)	-	(155)	461	25%
R2	232	-	-	(126)	(126)	106	54%
Total trade loans	**34,562**	**(396)**	**(315)**	**(240)**	**(951)**	**33,611**	**3%**
Consumer loans							
A	4,913	(49)	-	-	(49)	4,864	1%
B	8,887	(95)	-	-	(95)	8,792	1%
C	14,578	(171)	-	-	(171)	14,407	1%
C1	2,245	(20)	-	-	(20)	2,225	1%
C2	2,304	-	(63)	-	(63)	2,241	3%
C3	209	(37)	-	-	(37)	172	18%
D	96	-	(35)	-	(35)	61	36%
D1	95	-	(43)	-	(43)	52	45%
D2	48	-	-	(29)	(29)	19	60%
D3	69	-	-	(40)	(40)	29	58%
E	5	-	-	(4)	(4)	1	80%
R1	203	-	(49)	-	(49)	154	24%
R2	78	-	-	(44)	(44)	34	56%
Total consumer loans	**33,730**	**(372)**	**(190)**	**(117)**	**(679)**	**33,051**	**2%**
Pawn shop loans							
P	10,085	-	(44)	-	(44)	10,041	0%
Total pawn shop loans	**10,085**	**-**	**(44)**	**-**	**(44)**	**10,041**	**2%**
Manufacturing loans							
A	445	(4)	-	-	(4)	441	1%
B	1,268	(13)	-	-	(13)	1,255	1%

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans%
C	5,403	(63)	-	-	(63)	5,340	1%
C1	195	(2)	-	-	(2)	193	1%
C2	581	-	(15)	-	(15)	566	3%
C3	120	(22)	-	-	(22)	98	18%
D	15	-	(5)	-	(5)	10	33%
D1	15	-	(7)	-	(7)	8	47%
D2	7	-	-	(5)	(5)	2	71%
D3	4	-	-	(2)	(2)	2	50%
E	29	-	-	(24)	(24)	5	84%
R1	73	-	(15)	-	(15)	58	21%
R2	49	-	-	(24)	(24)	25	49%
Total manufacturing loans	**8,204**	**(104)**	**(42)**	**(55)**	**(201)**	**8,003**	**3%**
Total loans to customers	**203,436**	**(2,082)**	**(1,826)**	**(1,483)**	**(5,391)**	**198,045**	**3%**

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans %
Analysis by sector:							
Agriculture loans							
Not overdue	58,569	(477)	(577)	(354)	(1,408)	57,161	2%
1 to 30 days overdue	818	(122)	(25)	(26)	(173)	646	21%
31 to 60 days overdue	711	-	(202)	(34)	(236)	475	33%
61 to 90 days overdue	359	-	(122)	(30)	(152)	206	42%
91 to 180 days overdue	513	-	(1)	(314)	(315)	198	61%
Over 180 days overdue	-	-	-	-	-	-	0%
Total agriculture loans	**60,970**	**(599)**	**(927)**	**(758)**	**(2,284)**	**58,686**	**4%**
Service loans							
Not overdue	55,271	(570)	(226)	(213)	(1,009)	54,262	2%
1 to 30 days overdue	273	(41)	(9)	(5)	(55)	218	20%
31 to 60 days overdue	108	-	(38)	(2)	(40)	68	37%

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans%
61 to 90 days overdue	96	-	(35)	(8)	(43)	53	45%
91 to 180 days overdue	137	-	-	(85)	(85)	52	62%
Over 180 days overdue	-	-	-	-	-	-	0%
Total service loans	**55,885**	**(611)**	**(308)**	**(313)**	**(1,232)**	**54,653**	**2%**
Trade loans							
Not overdue	33,817	(339)	(210)	(156)	(705)	33,112	2%
1 to 30 days overdue	395	(57)	(21)	(4)	(82)	313	21%
31 to 60 days overdue	128	-	(41)	(4)	(45)	83	35%
61 to 90 days overdue	104	-	(43)	(2)	(45)	59	43%
91 to 180 days overdue	118	-	-	(74)	(74)	44	63%
Over 180 days overdue	-	-	-	-	-	-	0%
Total trade loans	**34,562**	**(396)**	**(315)**	**(240)**	**(951)**	**33,611**	**3%**
Consumer loans							
Not overdue	33,189	(336)	(115)	(35)	(486)	32,703	1%
1 to 30 days overdue	228	(36)	(3)	(9)	(48)	180	21%
31 to 60 days overdue	120	-	(39)	(3)	(42)	78	35%
61 to 90 days overdue	74	-	(33)	-	(33)	41	45%
91 to 180 days overdue	119	-	-	(70)	(70)	49	59%
Over 180 days overdue	-	-	-	-	-	-	0%
Total consumer loans	**33,730**	**(372)**	**(190)**	**(117)**	**(679)**	**33,051**	**2%**
Pawn shop loans							
Not overdue	9,803	-	(43)	-	(43)	9,760	0%
1 to 30 days overdue	261	-	(1)	-	(1)	260	0%
31 to 60 days overdue	19	-	-	-	-	19	0%
61 to 90 days overdue	1	-	-	-	-	1	0%

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans%
91 to 180 days overdue	1	-	-	-	-	1	0%
Over 180 days overdue	-	-	-	-	-	-	0%
Total pawn shop loans	**10,085**	**-**	**(44)**	**-**	**(44)**	**10,041**	**0%**
Manufacturing loans							
Not overdue	8,043	(84)	(30)	(42)	(156)	7,887	2%
1 to 30 days overdue	110	(20)	-	-	(20)	90	18%
31 to 60 days overdue	15	-	(5)	-	(5)	10	33%
61 to 90 days overdue	18	-	(7)	(2)	(9)	9	50%
91 to 180 days overdue	18	-	-	(11)	(11)	7	61%
Over 180 days overdue	-	-	-	-	-	-	0%
Total manufacturing loans	**8,204**	**(104)**	**(42)**	**(55)**	**(201)**	**8,003**	**3%**
Total loans to customers	**203,436**	**(2,082)**	**(1,826)**	**(1,483)**	**(5,391)**	**198,045**	**3%**

During the years ended December 31, 2018 and 2017, the Group modified the contractual cash flows on certain loans to customers. All such loans were transferred to at least Stage 2 with a loss allowance measured at an amount equal lifetime expected credit losses. Therefore, there are no loans with modified contractual cash flows transferred to Stage 1 from Stage 2 or Stage 3.

Analysis of collateral and other credit enhancements

The following table provides the analysis of the loan portfolio, net of impairment:

	December 31, 2018	% of loan portfolio	December 31, 2017	% of loan portfolio
Loans with no collateral	165,186	62%	117,423	59%
Loans with collateral	99,422	38%	80,622	41%
Total	**264,608**	**100%**	**198,045**	**100%**

Type of collateral	December 31, 2018 Gross carrying amount	December 31, 2018 ECL	December 31, 2018 Carrying amount	December 31, 2018 Collateral Fair Value
Real estate	88,434	(3,742)	84,692	271,172
Precious metals	12,933	(14)	12,919	22,723
Movable property	1,911	(100)	1,811	6,043
Non-collateralized	171,886	(6,700)	165,186	-
Total	**275,164**	**(10,556)**	**264,608**	**299,938**

Type of collateral	December 31, 2017 Gross Carrying Amount	December 31, 2017 ECL	December 31, 2017 Carrying Amount	December 31, 2017 Collateral Fair Value
Real estate	71,325	(2,081)	69,244	228,768
Precious metals	10,137	(44)	10,093	18,657
Movable property	1,317	(32)	1,285	4,032
Non-collateralized	120,657	(3,234)	117,423	-
Total	**203,436**	**(5,391)**	**198,045**	**251,457**

Loans with collateral are mainly secured by real estate, movable property and precious metals. In addition, the majority of the loans are collateralized by sureties. Secured loans are mainly included in the pawn shop, service, trade and agricultural loan categories. The Group's policy is to issue such loans with a loan-to-value ratio at the date of loan issuance of a maximum of 60%, when referring to the collateral's discounted value, i.e. the least value at which it is expected to be realized (Group's conservative approach, whereby it reduces the collateral's market value at a certain percentage applying professional judgement). Otherwise, if calculated using the market values, the ratio is a maximum of 100%, for the major part of the loan portfolio, as displayed below.

LTV Ratio	December 31, 2018 Gross Carrying Amount	December 31, 2018 ECL	December 31, 2018 Carrying Amount
Less than 50%	202,846	(7,890)	194,956
51-70%	19,662	(826)	18,836
71-90%	22,767	(769)	21,998
91-100%	14,258	(296)	13,962
More than 100%	15,631	(775)	14,856
Total	**275,164**	**(10,556)**	**264,608**

LTV Ratio	December 31, 2017 Gross Carrying Amount	December 31, 2017 ECL	December 31, 2017 Carrying Amount
Less than 50%	146,715	(4,002)	142,713
51-70%	15,138	(463)	14,675
71-90%	17,542	(383)	17,159
91-100%	13,118	(237)	12,881
More than 100%	10,923	(306)	10,617
Total	**203,436**	**(5,391)**	**198,045**

Management estimates that the fair value of collateral estimated at the inception of the loans is at least equal to the carrying amounts of corresponding secured loans as at December 31, 2018 and 2017, excluding the effect of overcollateralization. Due to the low loan-to-value ratio, the management does not expect any possible negative movements in market prices to have a significant impact on recoverability of the loans.

Sureties received from individuals are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral.

Repossessed assets are presented in other assets. Refer to Note 15.

Loan maturities
The maturity of the loan portfolio is presented below, which shows the remaining period from the reporting date to the contractual maturity of the loans.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk for the Group arises from open positions in interest rates, which are exposed to general and specific market movements and changes in the level of foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions. These are monitored on a regular basis and reviewed by the Executive Board and approved by the Supervisory Board.

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 Group 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.

Interest rate gap analysis
Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for financial instruments is as follows:

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
December 31, 2018							
ASSETS							
Cash and cash equivalents	2,261	-	-	-	-	11,692	13,953
Financial assets at fair value through profit or loss	37	-	405	-	-	-	442
Loans to customers	54,339	32,880	61,057	116,269	63	-	264,608
Other financial assets	-	-	-	-	-	1,705	1,705
	56,637	**32,880**	**61,462**	**116,269**	**63**	**13,397**	**280,708**

FINANCIAL STATEMENT

LIABILITIES							
Financial liabilities at fair value through profit or loss	-	-	1,659	-	-	-	1,659
Borrowed funds	29,000	16,164	27,882	155,476	2,395	-	230,917
Debt securities issued	74	-	9,871	-	-	-	9,945
Other financial liabilities	-	-	-	-	-	692	692
	29,074	**16,164**	**39,412**	**155,476**	**2,395**	**692**	**243,213**
Interest sensitivity gap	**27,563**	**16,716**	**22,050**	**(39,207)**	**(2,332)**	**12,705**	**37,495**
Cumulative interest sensitivity gap	**27,563**	**44,279**	**66,329**	**27,122**	**24,790**	**37,495**	
December 31, 2017							
ASSETS							
Cash and cash equivalents	9,816	-	-	-	-	4,504	14,320
Financial assets at fair value through profit or loss	175	-	1,410	-	-	-	1,585
Loans to customers	34,986	22,607	49,139	91,252	61	-	198,045
Other financial assets	-	-	-	-	-	1,470	1,470
	44,977	**22,607**	**50,549**	**91,252**	**61**	**5,974**	**215,420**
LIABILITIES							
Financial liabilities at fair value through profit or loss	364	227	-	-	-	-	591
Borrowed funds	30,297	18,454	35,213	76,518	7,218	-	167,700
Debt securities issued	9	-	-	9,871	-	-	9,880
Other financial liabilities	-	-	-	-	-	476	476
	30,670	**18,681**	**35,213**	**86,389**	**7,218**	**476**	**178,647**
Interest sensitivity gap	**14,307**	**3,926**	**15,336**	**4,863**	**(7,157)**	**5,498**	**36,773**
Cumulative interest sensitivity gap	**14,307**	**18,233**	**33,569**	**38,432**	**31,275**	**36,773**	

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2018 and 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2018			**2017**		
	Average effective interest rate, %			**Average effective interest rate, %**		
	GEL	**USD**	**EUR**	**GEL**	**USD**	**EUR**
Interest bearing assets						
Cash and cash equivalents	6.22%	0.67%	-	6.70%	0.50%	-
Loans to customers	39.99%	25.01%	-	49.67%	27.01%	-
Interest bearing liabilities						
Borrowed funds	12.00%	7.24%	5.27%	12.49%	7.29%	7.35%
Debt securities issued	12.07%	-	-	12.32%	-	-

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at December 31, 2018 and 2017, is as follows:

	2018	**2017**
100 bp parallel fall	(341)	(160)
100 bp parallel rise	341	160

Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk through use of back to back loans which are classified as derivatives (see Note 11), such activities do not qualify as hedging relationships in accordance with IFRS.

FINANCIAL STATEMENT

The following table shows the foreign currency exposure structure of financial assets and liabilities as at December 31, 2018:

	EUR	USD	Total
ASSETS			
Cash and cash equivalents	1,980	2,582	4,562
Loans to customers	-	9,332	9,332
Other financial assets	3	184	187
Total assets	**1,983**	**12,098**	**14,081**
LIABILITIES			
Borrowed funds	452	127,348	127,800
Total liabilities	**452**	**127,348**	**127,800**
Net position	**1,531**	**(115,250)**	**(113,719)**
The effect of derivatives held for risk management	**-**	**112,150**	**112,150**
Net position after derivatives held for risk management purposes	**1,531**	**(3,100)**	**(1,569)**

The following table shows the foreign currency exposure structure of financial assets and liabilities as at December 31, 2017:

	EUR	USD	Total
ASSETS			
Cash and cash equivalents	1,504	7,329	8,833
Loans to customers	-	19,895	19,895
Other financial assets	2	124	126
Total assets	**1,506**	**27,348**	**28,854**
LIABILITIES			
Borrowed funds	1,369	102,568	103,937
Other financial liabilities	5	30	35
Total liabilities	**1,374**	**102,598**	**103,972**
Net position	**132**	**(75,250)**	**(75,118)**
The effect of derivatives held for risk management	**-**	**75,090**	**75,090**
Net position after derivatives held for risk management purposes	**132**	**(160)**	**(28)**

The following significant exchange rates were applied during the year:

in GEL	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
USD 1	2.5345	2.5086	2.6766	2.5922
EUR 1	2.9913	2.8322	3.0701	3.1044

A weakening of the GEL, as indicated below, against the following currencies at December 31, 2018 and 2017, would have increased (decreased) profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2018	2017
10% appreciation of USD against GEL	(264)	(14)
10% appreciation of EUR against GEL	130	11

A strengthening of the GEL against the above currencies at December 31, 2018 and 2017 would have had the equal opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

Liquidity risk

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

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Executive and Supervisory Boards.

The Group seeks to actively support a diversified and stable funding base comprising long- term and short-term loans from other banks and other financial institutions, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The liquidity management policy requires:

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

Liquidity position is monitored by the Finance Department and the ALCO. Under the normal market conditions, information on the liquidity position are presented to the Management Risk Committee on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Finance Department.

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

The maturity analysis for financial assets and liabilities as at December 31, 2018 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross Amount outflow	Carrying amount
Non-derivative liabilities							
Borrowed funds	15,295	15,538	20,832	35,650	178,067	265,382	230,917
Debt securities issued	-	74	496	10,522	-	11,092	9,945
Other financial liabilities	400	264	7	-	21	692	692
Total financial liabilities	**15,695**	**15,876**	**21,335**	**46,172**	**178,088**	**277,166**	**241,554**

The maturity analysis for financial assets and liabilities as at December 31, 2017 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Borrowed funds	26,253	4,070	19,209	38,232	96,359	184,123	167,700
Debt securities issued	-	9	-	-	12,211	12,220	9,880
Other financial liabilities	350	17	-	3	106	476	476
Total financial liabilities	**26,603**	**4,096**	**19,209**	**38,235**	**108,676**	**196,819**	**178,056**

The table below shows an analysis, by expected maturities, of amounts recognized in the consolidated statement of financial position as at December 31, 2018:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 month	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	13,953	-	-	-	-	-	-	13,953
Financial assets at fair value through profit or loss	37	-	405	-	-	-	-	442
Loans to customers	10,866	36,090	93,937	116,269	63	-	7,383	264,608
Property and equipment	-	-	-	-	-	7,699	-	7,699
Intangible assets	-	-	-	-	-	1,552	-	1,552
Deferred tax assets	-	-	-	-	-	2,500	-	2,500
Other assets	2,888	142	208	508	-	547	-	4,293
Total assets	**27,744**	**36,232**	**94,550**	**116,777**	**63**	**12,298**	**7,383**	**295,047**
LIABILITIES								
Financial liabilities at fair value through profit or loss	-	-	1,659	-	-	-	-	1,659
Borrowed funds	14,726	14,274	44,046	155,476	2,395	-	-	230,917
Debt securities issued	-	74	9,871	-	-	-	-	9,945
Current income tax liability	-	-	104	-	-	-	-	104
Other liabilities	718	541	155	21	-	-	-	1,435
Total liabilities	**15,444**	**14,889**	**55,835**	**155,497**	**2,395**	**-**	**-**	**244,060**
Net position	**12,300**	**21,343**	**38,715**	**(38,720)**	**(2,332)**	**12,298**	**7,383**	**50,987**

The table below shows an analysis, by expected maturities, of amounts recognised in the consolidated statement of financial position as at December 31, 2017:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	14,320	-	-	-	-	-	-	14,320
Financial assets at fair value through profit or loss	-	175	1,410	-	-	-	-	1,585
Loans to customers	6,736	25,126	71,728	91,230	61	-	3,164	198,045
Property and equipment	-	-	-	-	-	5,309	-	5,309
Intangible assets	-	-	-	-	-	1,325	-	1,325
Deferred tax assets	-	-	-	-	-	1,954	-	1,954
Other assets	1,503	180	991	298	-	643	-	3,615
Total assets	**22,559**	**25,481**	**74,129**	**91,528**	**61**	**9,231**	**3,164**	**226,153**
LIABILITIES								
Financial liabilities at fair value through profit or loss	-	364	227	-	-	-	-	591
Borrowed funds	26,227	4,070	53,667	76,518	7,218	-	-	167,700
Debt securities issued	-	9	-	9,871	-	-	-	9,880
Current income tax liability	-	-	297	-	-	-	-	297
Other liabilities	947	18	298	106	-	-	-	1,369
Total liabilities	**27,174**	**4,461**	**54,489**	**86,495**	**7,218**	**-**	**-**	**179,837**
Net position	**(4,615)**	**21,020**	**19,640**	**5,033**	**(7,157)**	**9,231**	**3,164**	**46,316**

26. SUBSEQUENT EVENTS

In January 2019 the Group signed loan agreement with Symbiotics - SEB Impact Opportunity Fund amounting to GEL 4,000 thousand with the tenor of three years, at floating interest rate.

In March 2019 the Group signed credit line agreement with JSC Pasha Bank amounting to GEL 2,500 thousand with the tenor of one year, at floating interest rate.

In March 2019 the Group issued another corporate bond worth GEL 15,000 thousand, which was admitted to the category B listing of the JSC Georgian Stock Exchange in April 2019. It is a 2-year floating rate bond, the proceeds of which are to be utilized for women entrepreneurs via tailored loan products.

In March 2019 the Group raised an additional GEL 10,000 thousand equity from the existing shareholders: AGRIF COÖPERATIEF U.A. and DWM Funds S.C.A-SICAV SIF. The investment aims to support the implementation of the Group's new strategy, which entails its transformation into the financial inclusion organization.

On May 1 2019 a 100% subsidiary of JSC MFO Crystal – Akido LLC was registered. The subsidiary will concentrate on further expansion of the Group's own-developed alternative sales channel "Akido".

On May 3 2019 the Group received waiver letter from JSC TBC Bank that waives the breach of covenant for the year 2018 (the covenant referred to target annual income 2018, hence, is a one-off requirement and has no continuity effect on the subsequent periods).

From May 2019 the Group's Board of Directors was joined by the sixth Director – Ilia Revia, who will hold the position of the Chief Executive Officer and be the chairman of the Board – effective from June 3 2019. Consequently, the existing Chief Financial Officer – Davit Bendeliani, who was an acting CEO for the past 1.5 years, will no longer assume these responsibilities.

ANNEXES

ANNEX 1

Compliance with the UK Corporate Governance Code as of 2018

PRINCIPLES	STATUS	NOTES
1. BOARD LEADERSHIP AND COMPANY PURPOSE	4.6	
A: Effective board	Fully	
B: Company purpose and culture	Fully	
C: Company purpose and culture	Fully	
D: Engagement with stakeholders	Partly	See comment D below
E: Workforce policies	Fully	
2. DIVISION OF RESPONSIBILITIES	3.25	
F: Role of a chairman	Partly	See comment F below
G: Independent members	Non-compliant	See comment G below
H: Board effectiveness	Fully	
I: Sufficient Board resources	Fully	
3. COMPOSITION, SUCCESSION AND EVALUATION	3.0	
J: Appointment and succession	Partly	See comment J below
K: Combination of skills, re-election	Partly	See comment K below
L: Annual evaluation	Partly	See comment L below
4. AUDIT, RISK AND INTERNAL CONTROL	5.0	
M: Effectiveness of audit	Fully	
N: Risk disclosure	Fully	
O: Internal controls and risk management	Fully	
5. REMUNERATION	5.0	
P: Executive remuneration	Fully	
Q: Transparent procedure	Fully	
R: Independent judgement	Fully	
TOTAL SCORE	4.17	

Note: Fully compliant is measured by 5, partly by 3 and non-compliant by 0.

Text of the Code: https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code

Comments on the Compliance with the UK Corporate Governance Code

D: There is no effective engagement with employees, i.e. in the form of a workforce advisory panel. Thus, the Company partly meets this standard.

F: While the Chairman is separate from the Chief Executive, he cannot be considered independent according to UK Corporate Governance Code, namely as he participates in the Company's share options (specifically designed for the chair and different from the management team), and represents a significant shareholder of the Crystal Fund and he has served for over nine years on the board. Relating to all other criteria, including those related to overall effectiveness in directing the Company, promotion of a culture of openness and debate and assessment of the Chairman, the Company is in compliance with the standards, thus partly meeting the requirement for principle F.

G: At least half of the board should be independent, however only one member out of five (excluding the chairman) can be categorised as fully independent using the definition of the Code. Lilit Gharayan, the Chair of the Internal Audit Committee is an independent member; whereas, the other members represent major investors and shareholders, and the Deputy Chairman has served for more than nine years and, as MFSG representative, has had a 'material' business relationship with the Company as a director and shareholder within the last three years.

J: While there is a rigorous appointment procedure for the members of the board, there are no succession plans in place nor which promote diversity, consequently, leaving the criteria as partly fulfilled.

K: Re-election does not take place on an annual basis. The chair has been appointed for over nine years, although he assumed the renewed role of chairman of the Supervisory Board in 2018. Crystal does not use any external consultancy for appointing board members. Therefore, the criterion is partly fulfilled.

L: There are no formal or rigorous annual evaluations for board or committee performance, nevertheless, there is a comprehensive evaluation procedure in place for the management team and the Chairman of the board. No externall facilitated evaluation is in place. Thus, its criteria are partly fulfilled.

ANNEX 2

Social Enterprises supported by Crystal

Arabuli ArtHouse	Art House in the mountainous region of Khevsureti
Hangi	Social Sewing Atelier in Zugdidi
Green Gift	Printing on a recycled, eco-friendly paper
Kaspi Social Enterprise	Natural wicker baskets
Babale	Wood and textiles (Social Enterprise);
Social Enterprise 'Together'	Producing Georgian mountainous, traditional salt 'Svanuri Marili'
Social Cafe	Free Space in Batumi
Social Enterprise 'ARBO'	Child-friendly and ecological wooden furniture and children's amusement park playgrounds
'Social Cafe'	Social Cafe, adapted for valetudinarians and visionless

ANNEX 3
YES Georgia - in Numbers (2018)

TOTAL NUMBER OF TRAINING PARTICIPANTS			
MFO CRYSTAL BRANCHES	**MAN**	**WOMAN**	**TOTAL**
AKHALTSIKHE	10	22	32
BATUMI	17	19	36
GORI	9	16	25
ZUGDIDI	13	20	33
TBILISI	124	148	272
TELAVI	6	7	13
KUTAISI	28	26	54
TOTAL	207	258	465

TOTAL NUMBER OF APPLICATIONS ADMITTED			
MFO CRYSTAL BRANCHES	**MAN**	**WOMAN**	**TOTAL**
AKHALTSIKHE	2	12	14
BATUMI	8	14	22
GORI	4	10	14
ZUGDIDI	9	10	19
TBILISI	22	18	40
TELAVI	4	6	10
KUTAISI	4	7	11
TOTAL	53	77	130

ABBREVIATIONS

ADB Asian Development Bank
AFD French Development Agency
ALCO Assets and Liabilities Committee
AML Anti-money laundering
BCBS Basel Committee on Banking Supervision
BSTDB Black Sea Trade and Development Bank
CEE Central and eastern Europe
CIS Commonwealth of Independent States
CSRDG Center for Strategic Research and Development of Georgia
DFI Development Finance Institution
E&S Environmental and social
EBRD European Bank for Reconstruction and Development
EERE Energy efficiency and renewable energy
EFSE European Fund for Southeast Europe
EIB European Investment Bank
FDI Foreign direct investment
GEL Georgian Lari
GDP Gross domestic product
IFI International Finance Institution
IMF International Monetary Fund
JSC Joint Stock Company
MFO Micro-finance organisation
MIV Microfinance Investment Vehicle
MPR Monetary policy rate
NBG National Bank of Georgia
OD Organisational development
REER Real Effective Exchange Rate
ROA Return on Assets
ROE Return on Equity
SB Supervisory Board
SDC Swiss Development and Cooperation
SDG Sustainable development goal
SQA Software quality assurance

crystal
Financial Inclusion Organization