ANNUAL REPORT 2019

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 297 million, employing around 1,000 members of staff, operating through 48 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/

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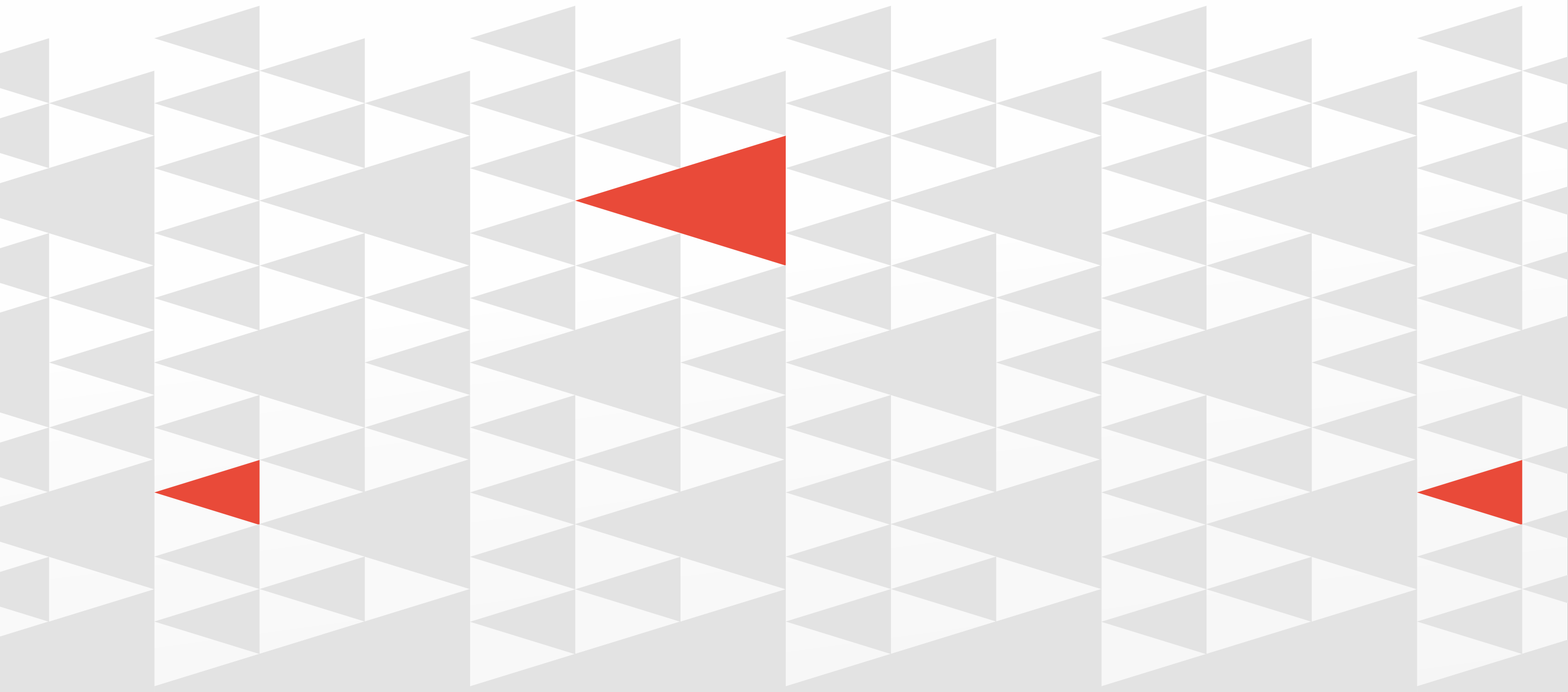
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STRATEGIC REPORT

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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.

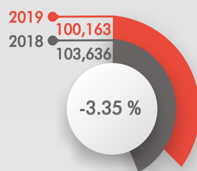
Crystal is the largest by assets non-banking financial institution in Georgia, managing the loan portfolio of GEL 297 million, employing around 1,000 members of staff, operating through 48 branches and serving more than 100,000 unique customers across Georgia.

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.

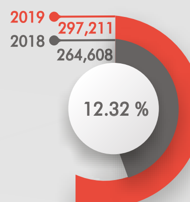
Crystal is the first Fitch-rated non-banking financial institution in the region with a rating 'B' stable outlook. In December 2018, Crystal received nation's responsible business award "Meliora"

FINANCIAL AND OPERATIONAL HIGHLIGHTS

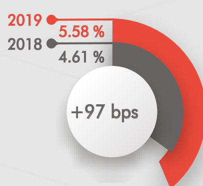
CUSTOMERS



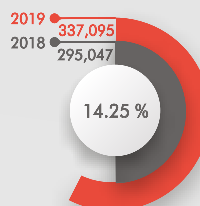
LOAN PORTFOLIO



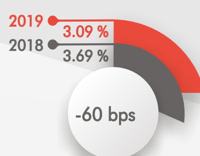
NON-PERFORMING LOANS



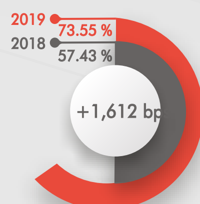
TOTAL ASSETS



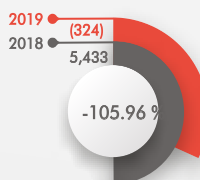
COST OF RISK



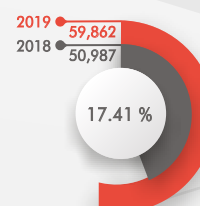
COST TO INCOME (incl. cost of funding)



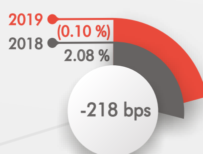
NET PROFIT / (LOSS)



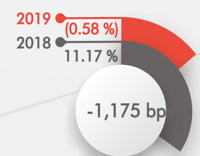
TOTAL EQUITY



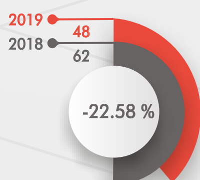
RETURN ON ASSETS



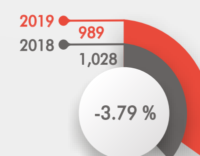
RETURN ON EQUITY



BRANCHES



EMPLOYEES



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CHAIRMAN'S STATEMENT

Archil Bakuradze
Chairman of Supervisory Board

Dear Stakeholders,

It is with great delight that I can summarise another challenging, yet successful, year in Crystal's history. I often regard 2019 as a healthy shake-up, not only for Crystal, but for the whole of the retail finance and microfinance industry.

After a decade of a strong growth and profitability, the National Bank of Georgia, the industry's core regulator, decided to moderate consumer lending, whilst levelling up both lending standards and prudential regulations for non-banking financial institutions. As a result, Georgia has developed a far stronger environment for the protection of consumer rights, as well as a better regulated and financially more stable microfinance sector. This, evidently, resulted in the shrinking of loan portfolios, and the temporary under-performance or departure of smaller, less strategic players from the market, thus creating an opportunity for consolidation by sounder, more strategic players.

I am pleased to note that Crystal has repeatedly proven its amazing ability to confront such challenges with an exceptional degree of resilience, to come out even stronger and still loyal to its corporate values.

Considering insignificant 2.5% growth of the book within the microfinance industry (per NBG), we managed to demonstrate 12.32% growth of GLP, thus consolidating our market share at 5% of the retail finance market for loans below 100 thousand GEL.

This result is thanks to the amazing effort of the management team, led by Ilia Revia, Crystal's newly appointed CEO, and the spectacular effort of the business team, backed by the rest of the organisation.

Although our financial performance was not quite at the level desired, Crystal did manage to make a huge leap in strengthening its systems and processes, and exploring operational efficiencies, which should ultimately translate into robust profitability and long-term value for our shareholders.

The turbulent market has revealed certain deficiencies in our systems and capacities, which drove an overhaul of the credit underwriting methodology, and a strengthening of internal credit control and overall credit risk management. Furthermore, with substantial growth in retail accounts and the deterioration of assets quality across the market, Crystal has

revamped its arrears management, demonstrating better capacity and more effective collection. NPL* came down to 5.58% from its historic high of almost 8% in May 2019.

The management team successfully optimised Crystal's distribution network, consolidating its mobile network of boutiques into branches, thus ending the year with a robust network of 48 branches across the country. This equally brought certain operational efficiencies.

Local political turbulence and regional tensions certainly impacted the economy, namely tourism revenues and FDI flows, which in turn was reflected in devaluation of the national currency, something heavily felt by our USD investors. Although, the year-end exchange rate of 2.8677, the short-term forecast and, most importantly, the economic fundamentals with single-digit current account deficit of 5.1% and improved trade balances, especially with the EU, all look optimistic.

Key Achievements

Before illustrating our vision for Crystal's future, please allow me highlight some remarkable achievements from 2019:

- We have successfully closed a new equity deal, of 10 million GEL in total, with our esteemed investors Developing World Markets and Incofin/AgRIF, thus bolstering Crystal's balance sheet and capital adequacy. Our year-end equity amounts to 59,862 thousand GEL, underpinning high capital adequacy, which is a solid foundation for further growth, either organically or by tapping into market consolidation opportunities;
- The placement of a corporate bond, at a comparatively low price, underpinned by the credit rating of 'B' with a stable outlook from Fitch Ratings, in a year of challenges and uncertainties is itself noteworthy, but there is a further interesting aspect. We also managed to issue our first-ever social bond, which was dedicated to women's economic empowerment. A part of the proceeds were channelled into supporting women-led enterprise financing, marking the start of Crystal's new Women Empowerment Product;
- On this front, we decided to spin off the value-added services, such as training, mentoring and networking into the newly-established Crystal Consulting LLC, a fully-owned Crystal subsidiary. Crystal Consulting, in collaboration with the Crystal Fund, received remarkable support from the SAP international team for developing the non-financial aspects of Women Empowerment Product. By the year end, we had entered into an exciting collaboration with USAID to expand our support to women and youth entrepreneurs across Georgia. The project is supported by the White House's flagship initiative W-GDP, which aims to Increase access of 2,500 women to quality education, training and market opportunities (1,500 women from Buzz-Georgia Component, 500 young women from Youth Enterprise component and 500 recipients of Advisory/ Mentorship Service component). This work, and Crystal's internal gender-empowerment initiatives, yielded significant recognition in the form of a CSR Award from the UN Global Compact Network Georgia for the protection of gender equality principles;
- It came as a nice, and complete, surprise to receive yet further recognition from the World Bank and the EU in Georgia – the Annual Report and Transparency Honorary Award. This only strengthens our belief in how important it is to ensure regular quality reporting, transparency and, in general, the highest-in-class ESG for the success of Crystal's mission;
- Finally, one of our most remarkable achievements was the 'A-' Social Rating from Microfinanza (MFR), which marks Crystal's leadership in the region on social performance management and impact; this is clearly only the start before further strengthening the Company's environmental and social domain.

* includes PAR30, restructured portfolio and write-offs

Update due to COVID-19

While working on this Annual Report, we began to witness a once-in-generation crisis unfold, caused by the global COVID-19 pandemic. The WHO announcement that the coronavirus was a global health emergency was made on the 30th of January 2020. Given that the events are indicative of conditions that arose after the reporting period, we view COVID-19 as a non-adjusting event, hence we have not adjusted the amounts documented in our financial statements. We have though made the necessary disclosures throughout this report.

A Way Forward

This is a great opportunity to look to the future and articulate our common vision, that which unites all Crystal's shareholders, management and staff, lenders, and partners. Our vision is for Crystal to become a leading regional customer-centric, people-oriented and data-driven financial inclusion organization. We promote the highest-in-class ESG standards and tackle poverty by acting as a platform for development for micro- and small-scale entrepreneurs.

While we encourage a prudent credit and operational risk policy, we also foresee the Company's further strong emphasis on innovation, technological leadership, high growth (15% and more) as well as geographic expansion. We anticipate higher than average profitability in the Georgian banking/finance sector. While we will maintain a residual dividend policy, which strikes a balance between investment in the Company's growth and regular cash payments to the shareholders.

Our strategic plans in 2020 are to:

- Weather the crisis caused by COVID-19, ensuring the safety of staff and customers; pro-active management of liquidity; optimal credit risk management to limit the pressure on capital; cost-optimisation; regulatory compliance; and effective communication with stakeholders;
- Fulfil effectively our renewed mission in light of COVID-19, which considers pro-active lending to 'loanable' segments, according to our 'New Risk Appetite', and investment in new services, which support adaptation measures for our business and retail customers;
- Bolster organisational culture and staff morale as well as ensure the development of systems in order to (a) cope with the ongoing crisis and, at a later stage, (b) realise post-crisis growth opportunities;
- Explore opportunities for obtaining a banking license;
- Demonstrate progress in up scaling our energy efficiency and renewable energy portfolio;
- Focus on female and youth economic empowerment by launching the fully-fledged Women Empowerment Product and introducing innovative value-added services;
- Further strengthen ESG by improved environmental and social performance management and reporting, as well as ramping up our CSR activities to address the needs of the most vulnerable customers.

In closing, I would like to thank my colleagues in the Supervisory Board for exceptional steering of the Company with unity, professionalism and a culture of debate. With special thanks to our management team and every single member of staff, each making Crystal's ambitious mission a reality.

It is worth stressing the remarkable work of our regulator – the National Bank of Georgia – ahead and during the COVID-19 crisis, as they ensure a predictable and fair business environment, alongside competitiveness, transparency and sustainability on the market.

Finally, I would like to thank all of our esteemed lenders, bondholders, partners and vendors, who each enable Crystal to deliver long-term shareholder value and fulfil its critical mission for Georgia during such a time of unprecedented challenge.

Sincerely,

Archil Bakuradze
Chairman of the Supervisory Board

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CHIEF EXECUTIVE OFFICER'S LETTER

Ilia Revia

Chief Executive Officer

Dear Stakeholders,

I joined Crystal as CEO in the midst of 2019, having previously served in the Bank of Georgia. In my first letter, I would like to briefly inform you about last year's performance, the environment in which the Company operates, and about the organisation which I am delighted to be working for.

I dare say that 2019 was probably the greatest year of change for Crystal, both in terms of new challenges to overcome and the organisational capacity we had to develop to do so. As you may be aware, between 2018-19 the National Bank of Georgia (NBG) adopted a cascade of regulations, bringing the microfinance sector under its prudential control and imposing robust standards for all lenders. While substantially reducing the sectoral risk, the regulatory reform has resulted in a moderation of growth and profitability for the whole market. Concurrently, due to various reasons, there has also been deterioration of asset quality across the market, and this heightened competitive situation has pushed Crystal to contest the market share vis-à-vis much larger, commercial banks. A substantial number of microfinance organisations have therefore exited the market due to the increased cost of doing business and the lack of organisational capacity required to overcome the new challenges.

Despite all odds, Crystal delivered another period of growth to its shareholders. For the full year, Crystal's loan portfolio totalled GEL 297,211 thousand, an increase of 12.3% YoY, revenues amounted to GEL 52,912 thousand, while loss to GEL 324 thousand. To achieve this growth, the Company had to redesign its business processes and substantially improve its overall cost-efficiency. The NPLs to gross loans ratio stood at 5.58% at year end, compared to the historical peak of 7.99% in May 2019. Asset quality further continued to improve over the second half of 2019, reflecting our revamped lending discipline and the ongoing strength of the economy.

Crystal's sustainability, sound business model and responsiveness to market changes have been fully recognised and supported by our shareholders, and our existing and new

lenders. Our shareholders (DWM & Incofin) provided additional support in the form of 10 million GEL for heightened Capital Adequacy Requirements (minimum CAR of 18%), imposed by NBG for the MFI sector. Moreover, our esteemed new institutional lenders (the European Investment Bank and the Black Sea Trade & Development Bank) joined Crystal's already developed lender base by providing additional financing facilities, earmarked for small and micro business development. We also successfully issued a second corporate bond (to the volume of 15 mln. GEL) into the local market dedicated to female entrepreneurial development. In 2019, Crystal was repeatedly rated 'B' with a stable outlook by Fitch Ratings, yet further proof of the Company's sustainable business operations.

Within the second half of the year, the Company underwent a major geographic consolidation initiative, merging 15 smaller branches (boutiques), which previously served as rural market entrance vehicles, with larger branches in regional towns, and transforming the seven remaining boutiques into fully fledged regional town branches. The consolidation initiative has allowed us to capture economies of scale, provide our customers with better and more inclusive service, while simultaneously merging two separate retail business lines into one. The consolidation project was conducted in adherence with Crystal's fundamental corporate and social responsibility standards, within the merged boutiques virtually all employees, in good standing, were offered employment in larger branches or the Company's HQ.

Georgian microfinance customers are becoming increasingly more demanding, with convenience becoming ever more important. It was therefore pleasing to see that Crystal's online e-commerce and POS lending platform, Akido, has continued to attract new customers to the Company. In 2019, as a result of fully branchless lending, our loan portfolio expanded by 1.7 million GEL, through the acquisition of 10.6 thousand new customers. The portfolio, mobilised through Akido, amounted to 8.2 million GEL in total, with up to 16 thousand active customers, reaching 15.6% of the total portfolio.

To diversify the products we offer, in Q4 we successfully piloted a specialised Auto branch and product line, aimed at capturing the significant auto Lending market opportunities available in Georgia. The target is to reach 1% of the auto lending and leasing market by the end of 2020; to provide the best solutions to our customers, both in terms of retail lending as well as the commercial lending/leasing of auto vehicles; and to expand to 5% of the auto lending market share by 2023.

As most Georgian micro and small businesses struggle with the strict collateral requirements imposed by the banking sector, Crystal has started to implement a leasing product line for business and agriculture customers. The addition of this leasing product line will assist Crystal in reaching its goal of financial inclusion, providing Georgian businesses with asset financing, in addition to working capital, thus simultaneously growing our customer and vendor network.

A number of organisational capacity growth projects were also completed in 2019. As a result, the Company has also been recognised and awarded for the way it does business:

- Crystal obtained an 'A-' Social Rating from Microfinanza (MFR) – the highest in the region;
- Crystal was the first Georgian commercial institution to get an ISO 27001 information security certificate, which proves that the Company maintains state of the art cyber security risk management;
- Crystal received the Annual Report and Transparency Honorary Award established by the World Bank and European Union;
- Crystal obtained a Corporate and Social Responsibility Award from the UN Global Compact for the protection of gender equality principles;
- Last but not least, we were recognised by Global Banking and Finance Magazine as the fastest growing non-banking financial institution in Georgia and the Best Investor Relations company in Georgia for 2019.

Despite maintaining a strong focus on improving our business results in 2019, Crystal has stayed true to its goal of demonstrating a positive social impact on at least 50% of customers served, alongside reducing our carbon footprint,

and empowering youth and female entrepreneurship. I would very much invite the readers of this annual report to refer to our Environment & Social section to review the major achievements in the field of CSR, and, furthermore, to read the special appendix describing in detail the Social Impact Measurement conducted by Crystal in 2019. The measurement reveals that 67% of our credit customers were able to make business investments using our credit facilities, while 62% reported making more net revenue with their business operations, 45% introduced new products or services, 35% expanded their personnel and 37% explored new markets and sales channels. These results strongly highlight Crystal's special, positive contribution to the well-being of Georgian society – something we are truly proud of.

Overall in 2019, within a highly challenging environment, Crystal weathered regulatory changes and delivered a year of growth - laying the groundwork for further expansion and improvement of the Company's results.

COVID-19 Update

While we were preparing this annual report, the globally disruptive COVID-19 pandemic occurred and has notably affected the country. The Georgian government's response to the virus has been very swift, with a rapid ban on flights from countries in the risk zone, quarantine and isolation measures, and a state of emergency and curfew – each aimed to prevent the spread of the contagion. As of the beginning of May, these measures have proven quite effective, with the number of confirmed infections staying relatively low compared to other countries. At the same time, a temporary lockdown of most business activities has been enforced, limiting the market potential for further lending growth. All commercial banks and large MFIs, including Crystal, have offered their customers a three month grace period on loan repayments (between April-June).

Crystal, as a socially responsible company, has taken all the appropriate measures to prevent infection of the virus to its employees and customers. Since the third decade of February 2020 (i.e. before the virus had spread to Georgia), all branches and HQ were equipped with disinfectants and the necessary personal protection equipment (masks, gloves, etc.). Prevention recommendations were issued and reiterated to all employees. We limited all foreign and non-essential domestic travel, training, gatherings and face-to-face meetings, and ensured that all employees returning from vacation abroad underwent a two-week self-isolation/quarantine period prior to returning to work. Moreover, the branches were regularly disinfected, and all precautionary measures recommended by the Ministry of Health and Labour were taken.

Starting from the 16th of March, the Company implemented a work-from-home policy. The vast majority of HQ personnel, and all employees in risk groups, were requested to work from home; an ability underpinned by Crystal's highly-developed remote capabilities. Branch personnel were mandated to work onsite in shifts, limiting the proportion of employees in branches to 35% of regular staff levels. In order to maintain the level of service to our customers, every available online and remote access capability was provided to employees working from home.

Regarding Crystal's sensitivity to COVID-19 related credit risks, we foresee the following threats and opportunities:

- A direct negative impact on loan portfolios related to the tourism, transportation and the food & entertainment industries;
- A delayed negative impact on loan portfolios related to the construction, real estate and education industries;
- A positive impact on health, trade (FMCG), and, most importantly, agriculture related loan portfolios.

In terms of current and new credit issuances, since the second half of March 2020, our credit policy has been revamped to decrease financing the abovementioned riskier segments of the economy, and to concentrate on smaller tickets, as, from our experience, these tend to be more recoverable during periods of crisis.

As the direct medium-term impact, we anticipate that the portfolio quality will worsen in the aforementioned sectors. On the positive side, Crystal has a well-diversified portfolio with low exposure to tourism (4.7%

of portfolio) or transportation (4.7% of the portfolio). We also have no exposure to the virus-susceptible entertainment, airline, marine, oil or gas industries in our portfolio.
Crystal's asset class is mainly comprised of microfinance loans, which have typically proven to be resilient in historical shocks.

As a result of COVID-19 related market changes, and due to the upcoming electoral period in 2020, we anticipate consumer/household and business lending growth to be moderate in 2020, although we still expect to deliver growth in micro and agricultural lending, which generally remain resilient. Currently, in the baseline scenario, we expect growth in the customer lending to be within 5% YoY. This growth will be underpinned by the Georgian government accelerating capital expenditure and economic programs aimed at supporting the economy during the crisis.

In this unprecedented situation, Crystal will witness a restructuring of the economic and social order in which Georgian business and society have traditionally operated. Much of the population, alongside businesses, will experience uncertainty and financial stress. This crisis, however, reveals not just vulnerabilities but also opportunities to improve the performance of our business. The aftermath of the pandemic will further provide us with an opportunity to learn from social and technological innovations and experiments, ranging from working from home to our customers adopting online channels.

Having successfully managed to implement a business continuity plan, Crystal is now moving towards its post-COVID-19 reimagining and strategic re-planning mode. The new strategy will focus on transforming Crystal's current mode of operations to more a digital approach, decreasing the need for physical interactions between employees and customers, and replacing cash transactions with mobile payment functionalities. We will simultaneously be assisting the adaptation process of micro business customers, while enhancing Crystal's existing capabilities for financial and business advice. We intend to greatly emphasise the latest needs of our customers with our respected partners, and thus together we can provide sustainability and development opportunities that are utterly vital in the current situation.

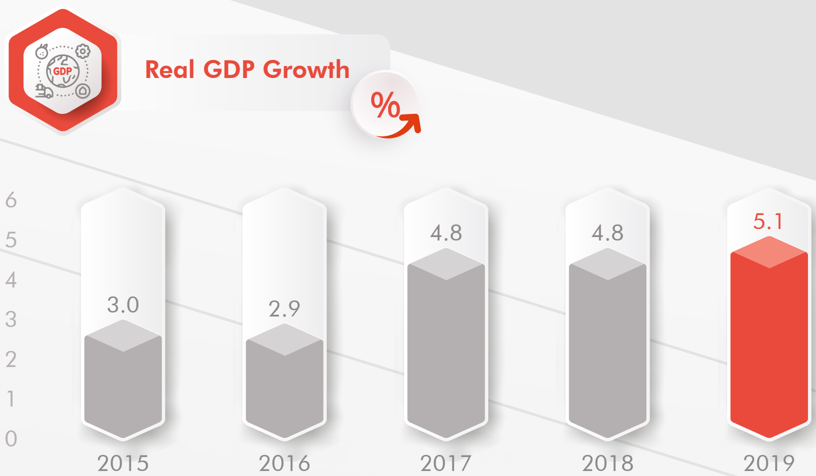
I would like to thank the whole Crystal team, who fully mobilised in response to the significant challenges of 2019 and in the 1st quarter of 2020, and have managed to solve important strategic tasks as a unified organization. My special thanks also go to our customers, who have declared their commitment to our Company for many years. We believe that they too are our Company's partners, and we will constantly endeavour to develop our mutually beneficial relationship even further.

The Company and all its partners certainly have an interesting year ahead!

Sincerely,
Ilia Revia
Chief Executive Officer

MACROECONOMIC AND MARKET OVERVIEW

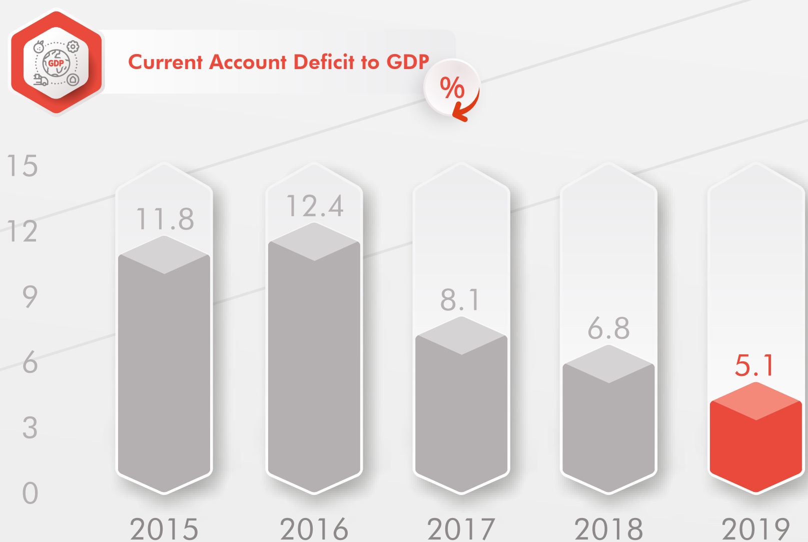
In terms of methodology and data sourcing, 2019 was a significant update for the accounting of economic growth. The National Statistics Office of Georgia (Geostat) adopted the Standard of National Accounting (SNA) 2008, replacing SNA 1993. Geostat rebased the GDP from 2010 to 2015 and recalculated historic GDP data between 2010-2018. As a result, 2018 Georgia's nominal GDP expanded by 8.6% (3.5 bln. GEL), while the real GDP growth increased by 0.1 pp and amounted to 4.8%.



In 2019, real Georgian GDP continued to steadily expand, with the annual growth rate reaching 5.1%. In terms of sectoral participation, the biggest contributors were trade (a 2.2 pp contribution), followed by real estate (1.5 pp) and construction (1.3 pp). Considering GDP structure, the largest sectoral shares came from trade, 14.4% (0.4 pp YoY) and real estate, 11.5% (0.1 pp YoY).

Current Account Balance

In 2019, the current account (CA) balance continued to improve based on increasing external inflows (export, remittances and tourism revenues) and constituted 5.1% (-1.7 pp YoY) of the GDP.



STRATEGIC REPORT

Export and Import

In 2019, the export of goods maintained significant growth and amounted to 12.1% YoY (406 mln. USD). The chief regional contributors to export were the CIS – 53.2% (-3.4 pp YoY) and the EU – 21.8% (the same percent YoY).

Whereas, the import of goods showed a declining trend of 0.7% YoY (68.3 mln. USD). The major contributors to importation were the CIS – 26.9% (-2.6 pp YoY) and the EU – 25.6% (-1.9 pp YoY).

Remittances

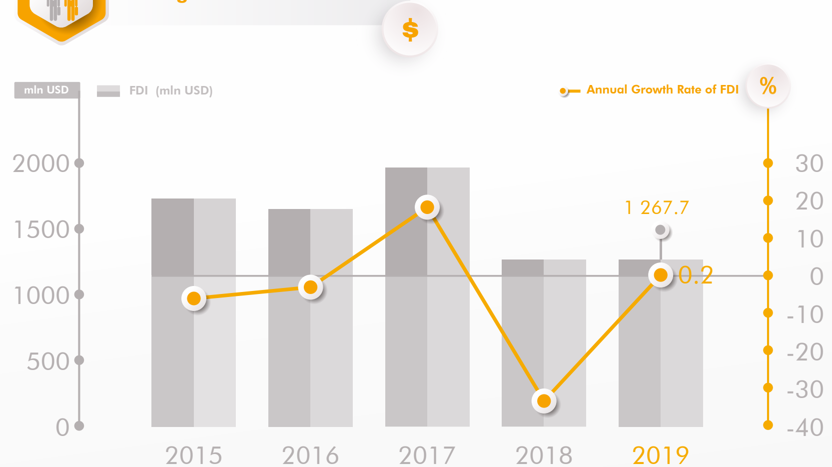
Remittances grew by 9.7% YoY (153 mln. USD) and amounted to 1,733 mln. USD in 2019. The largest share of remittances came from Russia 24.7% (-4.1 pp YoY), followed by Italy, 13.8% (1.6 pp YoY), Greece, 11.1% (0.3 pp YoY), the USA, 10.3% (-0.5 pp YoY) and Israel, 9.4% (-0.3 pp YoY).

Tourism

Despite a Russian ban on flights to Georgia since the second half of the 2019, tourism figures maintain upward trends. The number of tourists increased by 7.7% YoY and reached 5,080 thousand people in 2019. The number in visitors was reflected by increased tourism revenue, 1.5% YoY (47 mln. USD), and amounted to 3,269 mln. USD.

Foreign Direct Investments

According to the preliminary data, the FDI inflows showed an increasing trend of 0.2% YoY in 2019 (2.5 mln. USD). The financial sector was the largest FDI recipient (20.6%), followed by the energy sector (15.3%) and hotels and restaurants (12.4%). This upsurge was mostly driven by investment from the UK (19.5%), Turkey (18.7%) and Panama (6.2%).



Unemployment

The stable macroeconomic environment was reflected by a decrease in the unemployment rate for 2019, which stood at 11.6% (-1.1 pp YoY). The number of unemployed reduced by 10% YoY (-24.7 thousand) and amounted to 221 thousand individuals.

Exchange Rates and Foreign Exchange Reserves

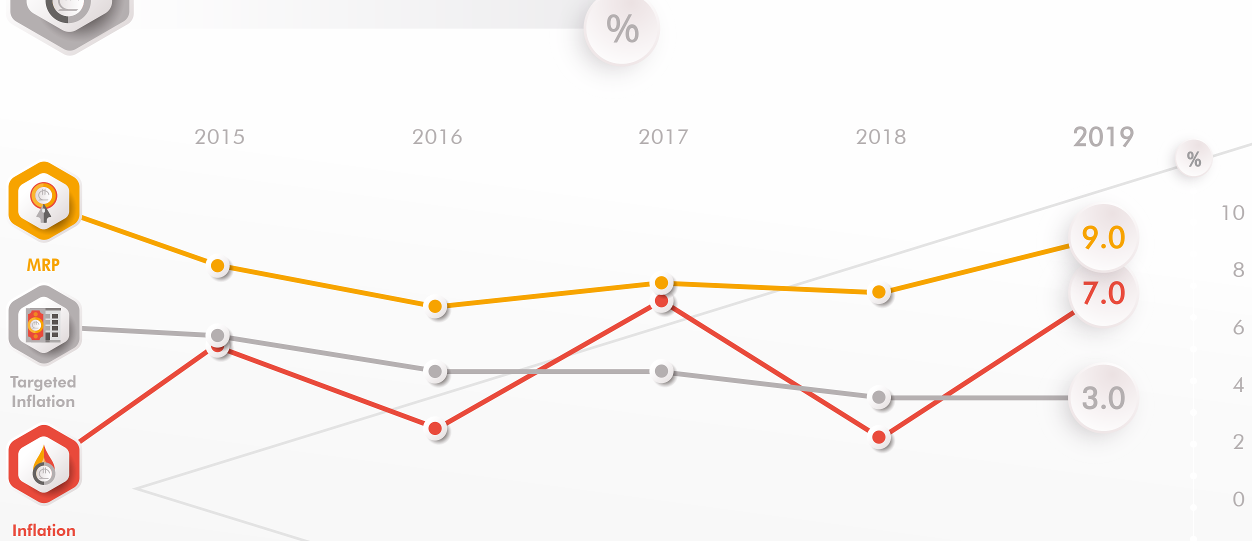
Compared to 2018, the end-of-period Georgian lari exchange rate appreciated against the Turkish lira by 26.2%, whilst the average GEL exchange rate appreciated against the lira by 7.8% YoY in 2019. Whereas, the end-of-period GEL exchange rate depreciated against the USD by 7.1%, against the EUR by 4.5% and against the Russian rouble by 20.3%. The average GEL exchange rate depreciated against the USD by 11.2% YoY, against the EUR by 5.4% YoY and against the Russian rouble by 7.6% YoY. Depreciation of the lari to the dollar, euro and rouble each supported competitiveness in the export of goods and services.

Nevertheless, lari deprecation against the currencies of Georgia's major trade partners placed downward pressure on the 2019 Nominal Effective Exchange Rate (NEER), by 7.9% YoY, and Real Effective Exchange Rate (REER), by 5.3% YoY.

Due to sharp depreciation against the USD, NBG ceased accumulating foreign exchange reserves from August 2019. By the end of 2019, NBG had sold 92.8 mln. USD and foreign currency reserves, equalling 3,506 mln. USD.

Inflation and Monetary Policy Rate

In 2019, NEER depreciation contributed to an increase in prices, with annual inflation amounting to 7%; higher than the targeted 3%. In terms of products, the major contributors to inflation were food and non-alcoholic

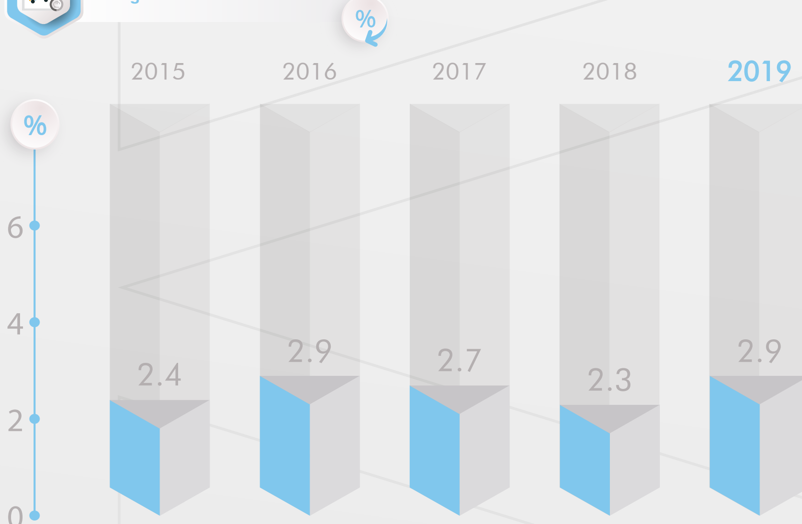


beverages (3.78 pp), and alcoholic beverages and tobacco (1.03 pp).

NBG started to tighten monetary policy in 9M19 in response to rising inflationary pressure and, by the end of year, the monetary policy rate (MPR) had reached 9%.

Budget Deficit

The budget balance showed a deficit of 1,463 mln GEL in 2019. Whilst the budget deficit share to nominal GDP stayed within the limits of the Maastricht Criteria (3%) and reached 2.9% (higher by 0.6 pp YoY).



Governmental Debt to GDP

In 2019, the governmental debt to nominal GDP ratio maintained its gradually increasing trend, yet it still remained far below the recommended upper limit of 60%. In total, governmental debt increased by 14.9% YoY (2,592 mln. GEL) and amounted to 19,956 mln. GEL, which is 39.9% of the nominal GDP (higher by 1 pp YoY).

International Ratings

S&P Global Ratings

- The positive macroeconomic trends of 2019 were reflected in Georgia's upgraded long-term credit rating from Standard & Poor's, from a BB- to a BB with a stable outlook.

Doing Business

Georgia was promoted by three positions in the World Bank's (WB) 2019 Doing Business (DB) report, taking 6th place of 190 countries (previously ranked 9th).

Economic Outlook for 2020

Due to COVID-19 pandemic impact, expectations about major macroeconomic indicators for 2020 has been updated. Changes in the Georgian 2020 state budget are based on the following macroeconomic parameters: Real GDP growth is expected to stand at -4.0%; budget deficit to GDP is forecasted to be about 8.5%; CA deficit to GDP is expected to worsen up to 10.3%; GDP deflator is forecasted at 4.8% and average annual consumer price index (CPI) is expected to be 4.7%.

IMF has also updated its forecast for Georgian economy to reflect the impact of COVID-19 pandemic. IMF's current forecasts for major macroeconomic indicators in 2020 are following: Real GDP growth will be -4.8%; consumer price index (CPI) will be 4.6%; budget deficit to GDP will be 7.8% and CA deficit to GDP will be 10.5%.

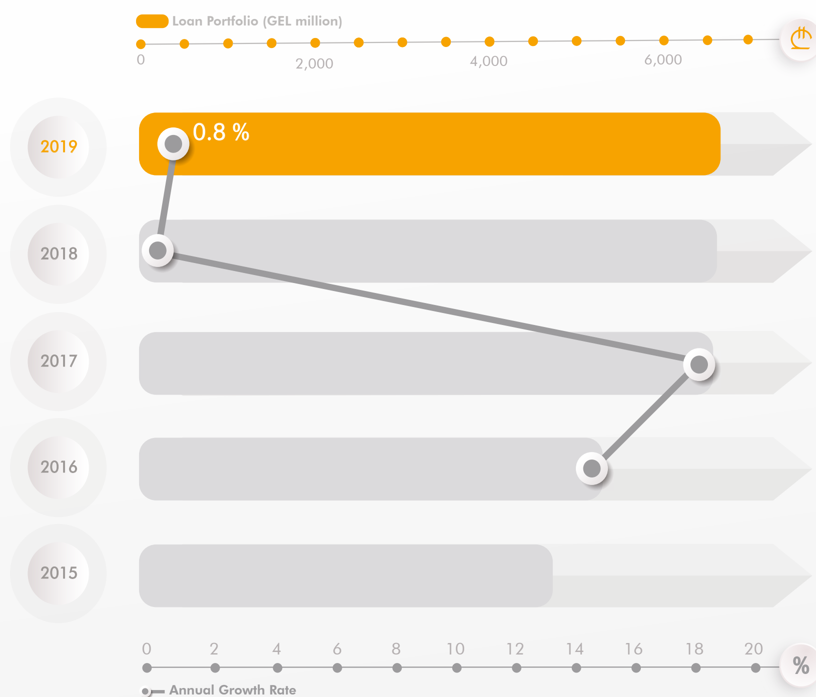
Lending Market

The market size has been defined for commercial banks and microfinance organisations portfolios and contracts for the disbursement of loans, up to 100,000 GEL, with a maximum maturity period of five years for resident households.

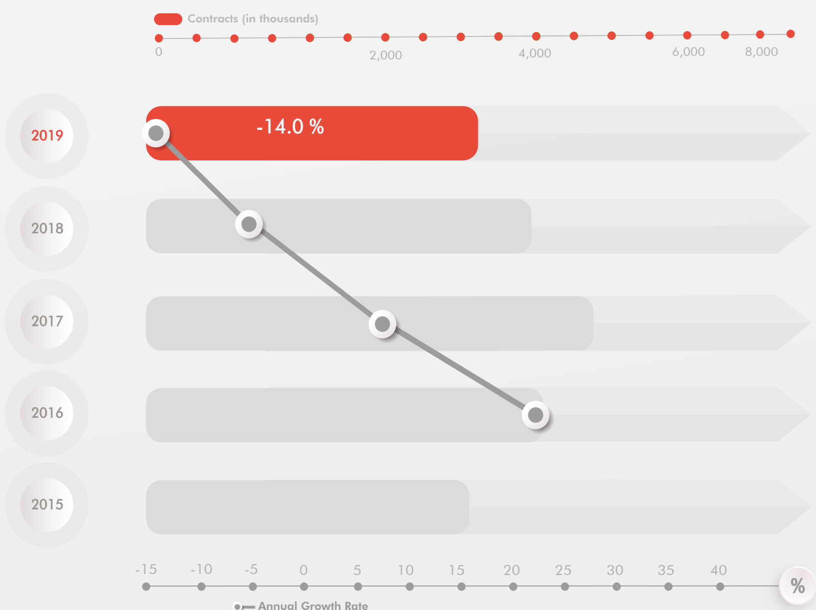
By the end of 2019, portfolios of commercial banks had increased by 0.5% (26.3 mln. GEL) YoY and amounted to 5,603 mln. GEL. Whereas, microfinance organisations' portfolios grew by 2.5% (27.6 mln. GEL) YoY and stood at 1,129 mln. GEL. Thus, the total market size of portfolios increased by 0.8% (53.9 mln. GEL) YoY and stood at 6,732.9 mln. GEL.

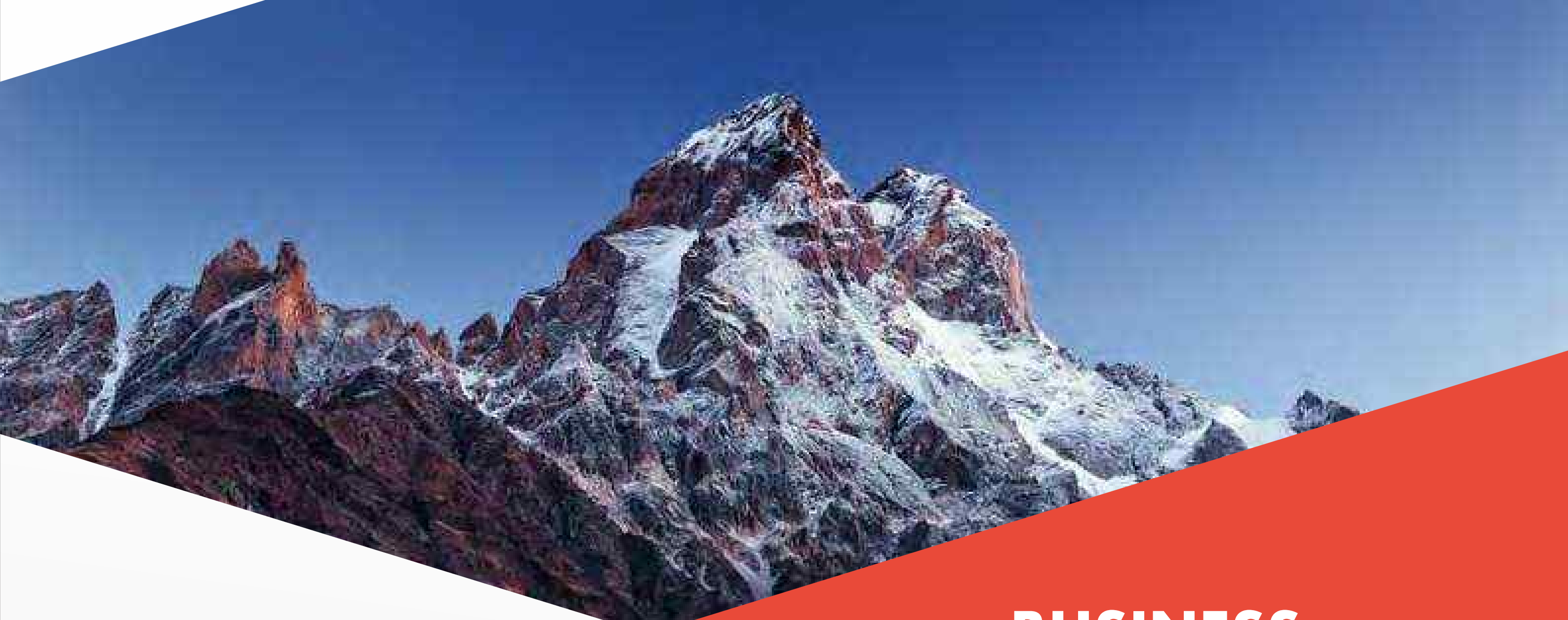
In terms of loan contracts, the market size decreased by 14% (544.5 thousand) YoY and equalled 3.34 mln. GEL. Within the same period, loan contracts in commercial banks decreased by 15.1% (466.9 thousand) YoY and amounted to 2.6 mln. GEL. Moreover, loan contracts from microfinance organisations declined by 9.9% (77.6 thousand) YoY and reached 708.6 thousand.

Market Size (Loan Portfolio)



Market Size (Loan Contracts)





BUSINESS MODEL

Crystal is a Financial Inclusion Organisation, providing various financial and non-financial services and acting as a platform of development for our customers. Our key strength is in our customer centric business model, which focuses on providing the best customer experience in micro finance.

Crystal delivers services to its customers through branches and digital channels. As of the end of 2019, Crystal can be found throughout Georgia via its 48 branches. Akido, our innovative e-commerce/POS lending platform, continues to attract new customers using online channels.

Our lending business delivers a wide range of products to both retail and business clients, offering exceptional customer experiences, comfortable and innovative micro finance solutions, alongside the highly personalised consulting and development services of our business support programs, such as Agro Club for customers engaged in farming and outsourcing tax accounting for micro and small businesses.

Our non-credit business offers a wide range of transactional products, such as payments, money transfers, currency conversion, insurance, and other related transactional banking services.

Crystal's funding sources are diversified, financing is largely derived from foreign financial institutions, although local commercial banks also represent a significant source of capital. Crystal is also developing alternative funding sources, such as issuing and placing corporate bonds; the proportion of which will range from 5-10% of our funding by the end of 2024.

In order to ensure responsible lending practices, Crystal pays special attention to the design of its products, internal systems, policies and procedures, employee skills, as well as its corporate culture. The Company has a positive reputation with its customers, financiers, regulators and other stakeholders.

CORPORATE STRATEGY

Our strategy is to become the best micro and small business and agriculture focused bank in Georgia, to create value for all our stakeholders and to develop our business sustainably. We also aim to build upon our know-how and become a customer-centric, people-oriented and data-driven institution. Our strategy is constantly evolving to address any new challenges and seize opportunities in the market whenever they may arise.

In 2021, Crystal will start application for a commercial banking license. Having reached the institutional maturity, geographical footprint, and number of customers and employees of a bank, Crystal is now effectively competing with banking institutions and not smaller MFI companies. Crystal's ability to compete against banks is however currently limited by statutory requirements within the microfinance regulatory framework. A commercial banking license will provide Crystal with greater opportunities to deliver on its mission, as the Company will be able to provide new products such as current and savings accounts and deposits to customers. These changes will effectively diversify GEL funding sources, while increasing the regulated lending limit of 100,000 GEL per customer, and expand the small business segment. A commercial banking license would also provide Crystal the highly valued opportunity to co-participate in Georgian governmental initiatives aimed at SME business development, such as Enterprise Georgia, Produce in Georgia, etc.

Upon obtaining a commercial banking license, Crystal will continue to serve the same segment of customers, although from a much stronger financial and institutional platform, thus creating more value for all stakeholders.

Key Performance Indicators

We closely monitor progress against our strategy and have therefore developed key performance indicators (KPIs) to measure our financial and operational performance. These KPIs are closely aligned with our strategy and further ensure that we will deliver our goals and achieve sustainable growth:

1. Net profit;
2. ROE;
3. Net interest margin;
4. Cost to income;
5. Return on assets;
6. Gross loan portfolio;
7. Cost to income ratio;
8. Cost of risk;
9. Customer retention rate;
10. Fully online customers base.

Operational Targets

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

1. Commercial banking license acquisition;
2. Core banking system implementation;
3. Expansion of the loan portfolio, including non-organic growth;
4. Increase of revenues from non-credit businesses;
5. Digitalisation and automation of business processes;
6. Brand strengthening and improvement of the customer experience;
7. Improved talent management and organisational development systems;
8. Strengthened risk governance;
9. Enhanced E&S performance and measurement;
10. Improved data governance and analytics.

Our Mission and Desired Outcomes

As a platform for the development of Georgia's micro and small entrepreneurs and farmers, Crystal aims to reduce regional poverty by promoting entrepreneurship in a financially, socially and environmentally sustainable way. Ultimately, we plan to serve more than 10% of the employable population, offering both financial and non-financial services. Our customers will consequently act as role models for small-scale entrepreneurship throughout Georgia.

Crystal's desired outcomes each fall under the 3Ps: people, profit and planet. We aim for an average return on equity (ROE) of 16 %. Crystal hopes to demonstrate positive societal impact on at least 50% of households served, while certain measurable environmental targets, such as the reduction of carbon footprint and increasing bio-diversity, will be elaborated over the course of 2021.

By reaching our core desired outcomes, Crystal will contribute towards six UN Sustainable Development Goals (SDGs).

MAIN RESULTS

By the 31st of December 2019, Crystal's loan portfolio amounted to 297.2 mln. GEL. The number of active loans for the same period amounted to 125,682 and the Company served 104,998 loan customers during the year. The portfolio increased by 32.6 mln. GEL (12.3%) and decreased by 4,763 loans (3.7%) YoY.

By product, the portfolio is structured as follows:

Portfolio structure	2018		2019		Growth	
	Q-ty	Amount	Q-ty	Amount	Q-ty	Amount
Trade	12,677	41,639,812	13,820	47,005,266	1,143	5,365,454
Service	18,619	65,997,788	24,921	86,554,954	6,302	20,557,166
Production	2,159	9,170,689	2,597	9,929,965	438	759,276
Agriculture	41,782	77,289,821	36,988	80,779,026	(4,794)	3,489,205
Consumer	55,208	70,509,745	47,356	72,941,688	(7,852)	2,431,942
Total	**130,445**	**264,607,856**	**125,682**	**297,210,899**	**(4,763)**	**32,603,043**

Major Business Innovations

At the beginning of the year, major business efforts were made in order to adjust to the requirements of the new regulations. To capture the changes in a timely and effective manner, an Agile Project Management Methodology was applied, according to which a number of major projects were implemented.

To place greater emphasis on the small business segment (>30,000 GEL) and increase the market share, the Company collaborated with a German consulting company, Inspiring Development. The market was studied, product features were enhanced, and relevant network personnel were retrained to improve their sales skills and financial analytics. Consequently, small loan portfolio growth reached 49% (expanding from 47 mln. to 70 mln. GEL).

Changes made to the processes associated with and approaches to loans under 5,000 GEL enabled us to serve over 35,000 customers during the year.

To empower women, the Company also prepared a special offer for female borrowers, and 2300 female entrepreneurs were financed with over 4,7 mln. GEL issued within the framework of the offer. Under the same project, the Company financed Disveli, a cooperative of successful women producing dairy products in Kvemo Kartli.

To bolster and support agrarian cooperatives, soft loans were issued to 15 agricultural cooperatives to a total of 380,000 GEL in 2019. Equally, to strengthen our customers and help enhance business performance in the agricultural sector, over 70 employees were retrained under the EFSE technical support project to provide competent advice to farmers.

Via our involvement in the public Crop Insurance Project, the Company financed over 650 insurance policies.

The branch network expanded to include seven more fully fledged branches, transformed from smaller service centres.

To help manage customer experiences, the Company conducted a qualitative survey of its current patrons, on which customer journey maps were prepared. To develop both an internal and external customer experience and enhance the existing practices, we conducted training workshops to help raise awareness of customer experience and develop practical skills.

Concerning customer social responsibility, the Company further introduced a new Life Insurance product, under which over 7000 consumer and business customers were insured.

The Company was also involved in the NBG Customer Financial Literacy Enhancement project and held two training meetings for existing customers and retrained up to 60 of our clients.

LEASING BUSINESS

Market Observations and Micro Customer Needs

At present, Crystal serves micro and small businesses primarily with the demand for working capital, but as they gain experience, they develop business growth initiatives, and thus create a demand for fixed assets as well. Addressing capital intensive initiatives with bank loans creates the need for adequate collateral, a challenge that remains true in Tbilisi as well as for regional farms and businesses.

In the light of recent developments to the national economy, it has become ever more important to deliver the right offers, with our core value highlighting speedy delivery and softer requirements for collateral, be it a mortgage, a pledge or a guarantee.

Crystal's Market Advantages

The Company currently has certain unique advantages, such as:

- A developed network infrastructure, with 48 locations across the country;
- Loyal customers, with over 100,000 clients and a high customer retention rate;
- Comprehensive systems, IT infrastructure and processes;
- Experienced teams at both the management and the operational level.

These advantages make it possible to address increased customer demand for investments in fixed assets by proposing the best offers, namely, in developing a leasing product. Alongside a financial solution, from leasing customers can obtain added value; a leasing company develops a network of reliable, fixed asset suppliers, thereby ensuring consumer protection from substandard industrial products by providing access to warranty management. The ultimate goal for Crystal is to identify the right financial decision for each consumer.

The Company aims to act as a provider for competitive financial services to the small business segment. To cope with the aforementioned challenges, Crystal has reflected on easing the collateral requirements for leasing products, and accordingly such products will be introduced in 2020.

Leasing Experience on the Market

There are presently three experienced leasing companies operating in Georgia. Three years of observation reveal that the leasing portfolio has doubled, awareness of leasing as a product has increased and, despite competition with banks, various industries have been increasingly applying to leasing companies to make effective, successful use of their products.

It is also noteworthy that the average leasing investment is 150,000 GEL, which suggests that micro and small businesses are still an accessible niche and require support from leases.

Leasing Development 2019 Review

After the decision was made to adopt leasing products, a strategic and financial plan was developed and the responsible individuals were identified. The following actions were taken to reach our objective:

- Strategic Management Team meetings were held;
- Working meetings with potential suppliers were held;
- Meetings with consumers were held;
- Competent leasing team personnel were selected;
- Software acquisition opportunities were explored;
- A technical support fund for consultation was allocated by the current financial partner: Proparco;
- Consulting service providers were selected;
- Training courses for selected personnel were conducted.

Plans for 2020

This year will be dedicated to developing relevant systems for leasing products, such as: software development, products tailored to the market, capacity building, personnel training, etc. Such progress will be backed by Proparco's technical support fund, through which the Company will seek advice from a team of local experts from the leasing business. Ultimately, there will be equal emphasis placed on raising awareness and the development of a network of skilled local providers offering quality assets.

The Company will have the opportunity to join such governmental programs as Enterprise Georgia and ARDA agro leasing. Access to these programs further provides added value to our current customers.

Crystal plans to make a total net investment of 10 mln. GEL in the leasing business in 2020. Consequently, up to two hundred customers from different sectors will be served during the year.

From the planned portfolio, 90% will be invested in different sectors of economy, while 10% is intended to support energy efficient and environmental-friendly vehicles for individual use.

KEY RISKS AND UNCERTAINTIES

1. Core Risk Management Principles

The availability of a sound and effective risk management system, one based on international standards and best practices, is one of the most important goals for Crystal.

Any risk management system must meet the following core principles:

- Inform the Company of any existing risks or threats in a timely manner;
- Allow the prevention of possible losses and the effective management of incidents;
- Create credible grounds for decision-making and planning;
- Increase the probability of achieving goals;
- Enhance control, operational efficiency and resilience of the organisation;
- Comply with regulatory requirements and international standards;
- Align to the Company business strategy and promote the achievement of its strategic goals.

2. Risk Management System

The system is composed of a risk management framework, involving related instruments and procedural integrity. The current risk management system is based on a three-level protection framework (BCBS 2011):

- Level I: the process owner – responsible for managing inherent risks to the process by using the risk management instruments implemented by the Company;
- Level II: the risk management unit – responsible for developing and upgrading the risk management system and implementing the relevant instruments;
- Level III: the Internal Audit Committee – responsible for assessing the adequacy and effectiveness of risk management processes.

It is critical that the Company maintains a suitable risk management environment and culture, one which is ensured by the Supervisory Board and the Management Team.

3. Risk Management Structure

All Company staff must be involved in the risk management process, and this remains one of the most important parts of a sound risk management system, which also promotes enhanced sustainability.

The structural units of the Company each have their own responsibilities, all necessary for an effective risk management process:

- **The Supervisory Board** – identifies the core goals of the Company, approves the appetite for risk and risk management policy. Furthermore, via the adjoining Risk Committee, the Supervisory Board reviews key risks and evaluates the effectiveness of the risk management system;
- **Supervisory Board committees** (the Risk Committee, the Assets and Liabilities Committee (ALCO) and the Internal Audit Committee) – aim to study all internal and external risks to which the Company might be exposed. They also inform the Supervisory Board of any strategic risks, and recommend the systems and processes that ought to be integrated or enhanced to manage and mitigate risks;
- **The Internal Audit Committee** – monitors the risk management system and evaluates its effectiveness and sustainability;
- **The Chief Executive Officer** – ensures the introduction of systems across the Company to implement the policies and risk appetite limits approved by the Supervisory Board;
- **The Management Team Risk Committee** – recieves performance reports from the risk management units to review any recommendations. The Committee may decide to enhance risk mitigation and control mechanisms after reviewing any recommendations submitted;
- **Risk Management Units** (the Risk Management Unit, the Compliance and Anti-Money Laundering Unit and the Information Security Risk Management Unit) – evaluate the existing quality controls and compliance against the risk appetite of the Company; and create and update risk management instruments (after validation by the Management Team);

- **The Operations Management Unit** – manages and controls risks at the operational level and is involved in the evaluation and review of risk management instruments.

4. Risk Mitigation and Overconcentration Management

The Company mitigates risks and manages overconcentration using risk management instruments; these tools are appropriately reviewed and updated on occasion.

The Company has adopted the following key risk management instruments:

- The establishent of loan portfolio diversification limits, inter alia, for business sectors and sub-sectors. No more than 20% of the portfolio may be concentrated on any business sub-sector (e.g. livestock husbandry, poulty farming, municipal transport services, taxi services);
- The Company performs monthly portfolio risk analyses to identify any concentration of risk and to recommend effective mitigation measures;
- As an independent body, the Credit Committee, makes decisions by assessing the relv ant information, with due regard to potential risks and project effectiveness;
- Credit scoring and credit ratings are performed to assist the person responsible in making the best decisions;
- In determining whether to finance a particular loan, the Company's vision encourages the protection of customers from excess financial burdens; any loan issued by Crystal must serve the development of the customer's business or the improvement of their living standards, and it must certainly have a positive effect;
- As an effective instrument, loan restructuring (i.e., reducing payments as per the loan schedule, pro rata, to decrease revenues) helps ease the customer's credit burden;
- To guage a variety of possible scenarios, stress-tests measure any anticipated risks;
- A risk incidents database, the analysis of which helps identify high-risk transactions and thereafter analyse weak controls;
- A sound fraud detection and management policy;
- The Credit Transaction Control Unit is responsible for following up on credit transactions in order to identify any defects or pitfalls and formulate recommendations for responses;
- A sound information security policy;
- In line with AML legislation, the Company maintains an AML Policy, used while customers are being served, aimed at preventing the execution of any transactions that might be related to money laundering or the financing of terrorism;
- The Company has developed identification and verification regulations, as well as system controls, to prevent servicing, to the maximum extent, unidentified or unverified customers;
- The Company has integrated Accuity into its core system, offering a watchlist of sanctioned persons, that helps prevent making deals with such individuals;
- The AML unit of the Company regularly updates internal regulations and procedures in line with legislative amendments;
- To mitigate compliance risks, the Compliance unit assesses and implements all new procedures and products.

5. Risk Management Enhancement, 2019 Key Achievements

- A Fraud Detection and Management Policy has been developed and implemented;
- The risk incident database has been updated to keep in full compliance with the applicable NBG regulations;
- A Business Continuity Policy has been developed and approved, with plans to implement it in 2020;
- Operational risk and AML risk management training courses were conducted across the Company to raise awareness of risk management processes;
- The loan review and approval process has been updated to ensure compliance with the applicable NBG requirements;
- AML procedures have been updated and the automation process has been enhanced;
- The information security management system has been fully upgraded and its effectiveness has been confirmed with the ISO 27001 certificate;
- The Fitch Rating 'B', with a stable outlook, is indicative of the sustainability of Crystal's systems.

CRYSTAL'S ENVIRONMENTAL AND SOCIAL FRAMEWORK

Crystal's desired outcomes each fall under the 3 **P**s: **P**eople, **P**lanet and **P**rofit. Crystal aimed to demonstrate its positive social impact to at least 50% of customers served in 2019 (around 35,000), alongside reducing its carbon footprint, and empowering both women and the youth through financial literacy, and customer-tailored financial and non-financial services.

Crystal's 2019 CO2 Footprint-The Disbursement Impact of Green Products:
Energy saving - 2.7 mln. kWh
CO2 reduction - 417 tonnes

Reaching the desired outcomes, Crystal is contributing towards the following six Sustainable Development Goals (SDGs):

Crystal upholds a no-harm and doing-good-for-the-community philosophy, its Environmental and Social (E&S) activities are consequently vital founding pillars within its daily operations. Crystal is socially and environmentally-friendly, gender-balanced and customer-oriented. The company's E&S goals help reach this mission. To achieve these goals, Crystal believes it is crucial that we:

- strengthen **young people** with financial literacy skills and knowledge;
- empower **women** and economic migrants;
- ensure our positive **environmental impact.**

STRATEGIC REPORT

CRYSTAL E&S 2019: THE MAIN ACHIEVEMENTS AND RECOGNITIONS

Microfinanza (MFR) Rates JSC MFO Crystal A-

The Financial Inclusion Organization Crystal has been assigned an 'A-' Social Rating, by the international agency Microfinanza Rating.

Headquartered in Italy, Microfinanza Rating is an independent rating company, in operation since 2000; as of today, the company is represented via a network of eight regional offices. MFR has conducted over 2000 rating assignments in more than 100 countries worldwide. The Microfinanza portfolio embraces a partnership with such diverse and reputable international organizations as Oikocredit, Symbiotics, FMO, Opic, Incofin, KFW, Axion, Pro Mujer, Deutsche Bank, the European Investment Bank, IFC (International Finance Corporation / World Bank Group), Blue Orchard, etc. Social Rating is a long and complex process that evaluates the sustainability of a company in different areas, with an emphasis on its social direction.

Crystal - Winner of Georgia's Corporate Social Responsibility Award 2019
The Georgian Corporate Social Responsibility Club (CSR Club), the Swedish International Development Cooperation Agency, CiDA and the UN Global Compact Network Georgia hosted a high-official event, the Corporate Social Responsibility Award 2019.

The CSR Competition brought together 33 major companies from Georgia, with winners announced from five categories. Among them was the Financial Inclusion Organization, Crystal, winning the Award for best practices in Gender Equality Principles (the United Nations Sustainable Development Goal (UN SDG) #5).

Crystal also received a second Award – as a UN SDG Pioneer – which was the first time any young professional (aged under 35) has been nominated from the Georgian Business Sector. The nomination was awarded for an exceptional job in advancing the responsible performance of the company and implementing the sustainable development goals internally – making global goals local business.

Our team member, Maya Kobalia – the Head of the Environmental and Social Division – was announced as the first Georgian winner of the SDG Pioneer Award. Thereafter, she also competed in the global round with other SDG Pioneers at the UN Headquarters in New York (United States).

Women's Empowerment
Crystal is one of the first companies to sign and endorse WEPs (Women Empowerment Principals) in Georgia. In 2018, in collaboration with UN Women and CiDA, Crystal developed its Women's Empowerment Action Plan for 2018-2019.

In harmony with Crystal's **Women's Empowerment Action Plan**, a mentoring program was also introduced to female employees of Crystal in 2019. **The goal of the project** was to empower female employees through a mutual exchange of professional experiences, thus inspiring, promoting and encouraging both their career and personal development.

Within the framework of WEPs, Crystal also:

- Issued 15 million GEL of Women/Gender Bonds – for the first time in the region: for the economic development of thousands of female customers, providing them with financial products and equal access to capital in order to grow their small businesses. Thus far, that has meant developing special proposals for female entrepreneurs and reducing their credit service fees by 5 percent. As a result, more than 2,300 women received loans that amounted to a total of 4.7 million GEL;
- Furthermore, in the framework of the Crystal Academy, 733 female staff members underwent various training programs; Crystal also systematically conducts gender wage-gap analyses.

THE PEOPLE IN OUR ORGANISATION

Caring for Crystal employees and maintaining decent working conditions are important long-term goals for the Company. Accordingly, Crystal is continually striving to preserve, and further develop, a safe and healthy environment. Within a positive workplace, the Company's talents can demonstrate their capabilities, and are given the continued opportunity to enhance and expand their personal and professional skills.

Years with Crystal

0-1 year	18.9%
1-5 years	59.2%
5-10 years	17.8%
Over 10 years	4.1%

Breakdown of employees by age

<20	0.2%
20-30	50.5%
30-40	38.8%
40-50	7.9%
50-60	1.5%
>60	1.0%

	Male	Female
All staff members	35.2%	64.8%

	Male	Female
Top management	80%	20%
Senior management	42%	58%
Middle-level management	67%	33%

Staff Support During the Pandemic

As a company with high social responsibility, Crystal has developed a business continuity and occupational safety plan, an integral part of which is its pandemic control scenario. According to this plan, the Company launched measures to prevent the spread of COVID-19 to ensure a safe work environment, and to protect both personnel and our customers as best as possible. Furthermore, Crystal fully retained its staff members to cope with the crisis.

- During the initial outbreak of the new coronavirus, Crystal devised and implemented preventive measures in full compliance with the recommendations issued by WHO and the Georgian government:
- During the state of emergency, where possible, staff members switched to remote work;
- 95% of the structural units of the Head Office switched to fully remote work;
- To maintain business continuity, while keeping the delivery of services relatively safe, the number of staff in branches was reduced to a minimum and two-week shift duties were introduced;
- Within the requirements of the Personal Data Protection Law, employees within certain risk groups were identified and instructed to isolate;
- Remote internal business training courses and meetings were conducted using the Office 365 platform;
- Urgent business meetings and interviews with job applicants were also held remotely;
- Offices were disinfected in compliance with the recommendations issued by the Ministry of Health;
- All the necessary equipment (including face masks, gloves, disinfectants, and other necessary protective items) were provided to all branches when required;
- To ensure the safety of staff members and customers alike, qualified doctors checked the health of our staff in the Tbilisi branches;
- Employee working hours were reduced;
- Rules and recommendations were developed for staff members and customers during the pandemic (the placement of desobarriers, hand disinfection terminals, the use of face masks, special signs and markings to uphold a 2-metre distance, etc.);
- To keep staff members properly informed and raise awareness, a news portal was created to upload recommendations and instructions issued by the Ministry of Health, alongside contact details and a hotline for the Ministry of Health and the Disease Control Centre, as well as the details of those people designated responsible within the Company to provide support for staff members;
- Guidelines, for all matters, were formulated and shared regularly in order to keep staff members informed and raise awareness about preventing the spread of the virus;
- To promote remote work, webinars with staff members were frequently held on a variety of pressing issues.

Equal Employment Opportunities

The Company offers equal employment opportunities to every employee and job applicant, irrespective of race; skin colour; language; gender; age; citizenship; origin; place of birth or residence; property or social status; religion or belief; national, ethnic or social origin; profession; marital status; health; disability; sexual orientation; gender identity and expression; political views or personal opinions; or any other distinction. The policy holds true for all cases of employment, including recruitment, promotion, execution of a contract, compensation, training, etc. The Organisation is run by motivated and honest professionals, and continually strives to create new opportunities for employee involvement, engagement and capacity building.

HR Digitalisation

In 2019, the Company implemented HRMS, a human resources management system. The first phase of the project was completed successfully, and the Company has embraced an entire new HR management system, that which significantly boosts the effectiveness of the administration of HR processes, thus saving financial as well as human resources.

The HR management automation project is divided into a number of software modules:

HRMS, and its component Doc Flow, replaced order and resolution documents with electronic notices;

The Payroll software module, which automatically calculates payroll and generates payments;

Crystal is presently working on ESS, an employee self-service software module that will allow internal customers to obtain information faster, enhance their access to information, and

accelerate the receipt of HR services. Using the self-service portal, which dispenses the need for HR involvement, staff members can request leave or business trips, control a leave balance, obtain information on their employment at the Company, etc.

HR Compliance

One of Crystal's priorities is to care for the welfare of every single staff member and create exceptional working conditions, therefore the Company continually strives to build the best system for achieving this aim. Consequently, a number of important initiatives and projects have been implemented. One such innovation is the creation of Crystal's HR Compliance Management (akin to an HR Ombudsman), as a separate unit in the People and Organisational Development Directorate.

HR Compliance is aimed at:

- Developing modern employment standards within the Company;
- Developing a highly responsible work culture;
- Protecting the labour rights of staff members;
- Implementing proactive measures to protect the rights of staff members;
- Developing flexible and accessible systems to report problems.

The HR Ombudsman serves as a representative for Crystal, as well as for each Crystalian, to safeguard their interests in compliance with the law, international standards and company regulations.

By calling the HR Ombudsman institute into being, the Company created an independent channel for employees, through which anybody is able to report a claim or complaint (allegations of discrimination, abuse, harassment or encroachment upon any other employment right), and thus protect their interests. It is the HR Ombudsman's function, and prerogative, to respond and make objective, fair decisions to such complaints, while also protecting the rights of each employee.

Crystal is the first organisation in Georgia to have created such a system. With this decision, Crystal is re-emphasising that its staff members, and protection of their rights, are at the Company's very core.

Crystal Academy

The Crystal Academy was established to institutionalise the Company's mentoring process and to motivate staff members. The mission of the Academy is to train and retrain Crystal employees with knowledge and skills that align to Company strategy, as well as with its high values and principles. The Academy brings knowledge sharing and development-oriented employees together in various clubs, which each hold the Academy slogan: "we share knowledge and care for the development of one another."

The mentor and the mentoring and training club were also created within Crystal Academy. The mentor club identifies and retrains employees to assist:

- Trainees (probationers) undergoing orientation and professional training;
- New employees in adapting;
- Underachieving employees to improve their performance;
- The best practices and approaches.

Whilst, the trainer club identifies appropriate employees for internal (re)training in training methods. The internal trainers also develop manuals and material for onsite as well as remote exercises and conduct internal training courses.

By establishing the mentor and the trainer club for its branch network, the Company has created an integrated, continuing training cycle between pre-employment and post-employment, that will significantly help reduce the time and funding required for the administration process.

Remote Training

Throughout 2019, various personnel training programs were developed and used to retrain relevant groups.

A remote training portal is also being implemented to increase employee access to training and a variety of remote courses are being developed for the portal. The remote training platform offers employees the opportunity to perform a variety of activities and assignments online, and to acquire new knowledge and enhance skills without physically leaving their work.

The training material uploaded to the remote platform can then be accessed by employees that have signed up from an external source (mobile phone, personal computer), which makes the training process even more convenient and effective.

Internships at Crystal

Embracing the UN Sustainable Development Goals (SDG 4), the Company strives to ensure a quality, inclusive and equitable education and to promote lifelong learning opportunities for all. To achieve this strategic goal, the Company has developed a new internship system.

The internship program helps the Company maintain its business continuity, while echoing its core approaches and values. As a developed platform, Crystal aims to use the internship system to provide the youth, and those interested in working in the financial sector, opportunities for:

- Professional and career development;
- Valuable experience and professional contacts;
- Developing practical skills;
- Obtaining a job in the Company.

Special training manuals were developed for the topics covered by each program. These manuals were built around the best practices and practical examples. The material for the programs was thereafter uploaded to the Crystal Academy Remote Training Platform, and is thus accessible for trainees regardless of location and time.

Within the framework of the internship program, the Company has closely cooperated with various educational institutions, including higher education establishments and vocational colleges.

Staff Adaptation

It is essential for Crystal to create a reduced stress, comfortable environment for its new and current employees. To this end, the Company has implemented an adaptation program that is intended for:

- **New employees** – The program helps individuals, within a short period, adapt to the work environment; the manager and team; and improve and build skills via the special training program (covering occupational safety, information security, the Company's internal services and the training modules). The induction process moreover introduces new employees to the internal organisational structure, management system, policy and strategy, to corporate culture and values, and informs them about other important organisational matters.
- **Long-term absentees** – Employees returning to work after a long period can quickly learn of any changes that may have occurred during their absence. This will help them adapt to and become involved in the work process, while also building their capacities and skills. This largely applies to employees returning from maternity leaves. As a result, the Company promotes the empowerment of its female employees and demographic growth throughout the country. Besides which, by launching the program, Crystal is actively promoting the implementation of the UN Women and UN Global Compact (UNGC) women's empowerment principles and the creation of a formal adaptation mechanism for paternal leave and the subsequent return to work.
- **Employees who have changed work** – As the Company offers its employees career growth and advancement opportunities, jobs and places of work are changed regularly. This adaptation program thus helps Crystal employees rapidly and easily acclimatise to new roles and places of work.

Internal Communication

The Company follows a robust policy for internal corporate communication systems and for developing new practices, which are greatly expected to be promoted the implementation of Office 365 and the activation of new communication channels. The Company maintains a core objective to ensure the uninterrupted exchange of data and to develop sound internal communication practices, consequently:

- The Company launched an internal portal capable of concurrently informing staff members of news and updates, through a single communication channel;
- The Company launched Microsoft Teams that has notably simplified communication within the branch network and allows live online webcasts;
- The Company launched YAMMER, where, among

other things, limited-scope groups can be created according to the specific interests of employees.

The personnel digitalisation project is on a par with the implementation of Office 365, and by supporting internal communications it keeps teams regularly informed regarding how, when and for what needs employees might require platform applications. These facets each helped facilitate personnel digitalisation in just a short period of time.

Equally, the implementation of Office 365 and internal corporate communication standards, systems and practices have significantly improved the working process, moreover it has reduced and saved time as well as human resources. The key outcomes of the employee survey are distributed as follows:

- **Internal corporate communication has improved - 94%**
- **Effectiveness has increased - 79%**
- **Average employee time saved on a daily basis - 45 minutes**

The Company's internal corporate communication practices are changing slowly but surely, and a new communication culture is setting in. The Company is also continuing to make intensive efforts in the area.

Personnel Involvement

Crystal's success, as a Financial Inclusion Organisation, is largely underpinned by its employees, and it is essentially important that each of its workers, and their goals, are attached to the Company's corporate interests. Accordingly, the Talent Development and Management Division is continually striving to create the best employment environment, one where each employee is offered an opportunity to realise their full potential and skills.

To promote the involvement of personnel and help employees develop and work as a team, in formal or informal environments, and to share interesting or useful information, the Company organises a variety of internal activities; which have already formed into a tradition.

To help employees in pursuing common interests, growing closer and sharing information between each other, YAMMER, the internal social network, supports thematic groups, containing almost all employees. Divided by various themes, these groups bring together employees with common interests, for example, a photographers' club, a movie-goers' club, a music or travellers' club. Employees can thus join groups that match their interests, and they can also form new groups and invite other curious people.

Besides which, within the internal social network, a group called Meet Crystalian regularly helps old and new employees share information. Using the network, employees have the opportunity for growth and development, moreover to describe their interesting career paths at Crystal, which allows teams to become better acquainted.

Promoting a Healthy Lifestyle

The promotion of a healthy lifestyle is a priority for Crystal, accordingly, the Company organises mini football and bowling championships, in which each employee is free to participate. Furthermore, Crystal is involved in other activities organised by various private and non-governmental entities that promote a healthy lifestyle:

- Last year, Company employees took part in a cycling race held in Tbilisi to celebrate World Car Free Day. The principal goal of the event was to promote good health by viewing bicycles, and other means of public transportation, as an alternative to cars.
- The Company annually funds the participation of certain employees in the Wings for Life World Run, an international marathon which collects funding to support people with spinal cord injuries.

It is worth mentioning that even senior and middle-level managers take part in such activities. Finally, to further promote good health, Crystal also provides its employees discounts in a variety of sports and fitness centres.

MANAGEMENT OF INNOVATIONS

Digital Product Management Unit

The Digital Product Management Unit was created on the 19th of June 2019. The unit is aimed at managing the Company's digital products, providing timely assistance to customers, and continually striving to upgrade and enhance products and eliminate any deficiencies.

On the 3rd of July 2019, Crystal implemented its DM system, the first digital product to process instalment applications and provide credit scoring. As a result of the implementation of the DM, the average time required for the Credit Committee to make decisions has dropped from 22 to 12 minutes.

- From the day of implementation DM has processed 105,583 applications, automatically rejecting 25,299. The rejection time alone saved the Committee 303,588 minutes = 632 days plus a few hours (the average time saved per application equates to 12 minutes);
- The time saved for loans approved and forwarded to the Committee is 802,840 minutes = 1672 days plus a few hours (the average time saved per application equates to 10 minutes).

The Company also developed an online identification method, by making a transfer of just 1 tetri, customers can now obtain instalment services remotely, without having to visit a branch. The service fully complies with the requirements of NBG and CreditInfo regulations.

Marketing

Marketing Studies

In 2019, the Marketing Department carried out a number of important communication campaigns, thereby informing many customers of our offers and providing further credit services, for instance:

- The Easy Payment campaign was proposed to consolidate customer debt and ease their credit burden;
- The Credit Holidays campaign was used to offer a grace period to seasonal business as well as consumer revenue customers;
- The Get Ready for the New Year campaign was intended to extend financial support to customers during the holiday period.

Development of the YES-Georgia Web Platform

A contemporary website design was developed to offer easy navigation and to allow for applications. The website moreover has a training module, a scoring system, a function for users to sign up for the latest updates and an easily controllable catalogue.

Communication Support for Leasing Products

A leasing communication concept was developed and the relevant segment identified. The information on competitors operating in the market was collected and analysed; information content and scripts for information were prepared; and Facebook, Instagram and LinkedIn communication channels were created. Thereafter the first advertisement was launched and additional information was posted.

Green Lending

In 2019, the Green Portfolio increased by 2.5 mln. GEL to 7.7 mln. GEL. In total, 7600 loans amounting to 9,935,000 GEL were issued as part of the Green Crediting initiative.

- Estimating just the results of 2019, the Company saved 2.7 million kWh of energy, thus preventing a 417 metric tonnes carbon dioxide footprint on the environment.

Besides which, certain mini projects were also implemented:

- Loyal Crystal customers were given free briquettes and energy efficient stoves – four Crystal customers in different regions of Georgia (with higher firewood consumption levels) were provided with free energy efficient stoves and nutshell briquettes;
- A video clip was prepared to raise the awareness of solar water heaters as energy efficient products;
- The Green Olympiad was developed to boost the sale of green products as a new incentive system for the Crystal distribution network;
- With FMO funding and the Frankfurt School's involvement, alongside the Energy Efficiency Centre (our local partner), the Company prepared a special training program for 40 Crystal employees.

Customer Empowerment

Consulting Platform for Women's Empowerment

Founded in 2019 as an affiliate, Crystal Consulting's main business is to empower our female entrepreneurs. Over the next four years, Crystal Consulting will provide business guidance and mentoring to female entrepreneurs on such matters as business management, customer relations, branding, marketing and HR management.

Financial Literacy for Entrepreneurs

In Q4 2019, working with NBG, Crystal started a financial literacy project for entrepreneurs – Dealing with Financial Organisations and Making Financial Decisions. The project is designed to conduct financial literacy training courses for our customers.

Alternative Sales

In 2019, we developed our alternative sales network extensively by adding 74 partners, 120 merchants and 35 POS officers. Using alternative sales channels, in total 22,059 loans and 15,425,477 GEL was generated.

Online instalments play a prominent role in alternative sales channels. Thus far, online instalment have been the only digital product that customers have been able to obtain without leaving their homes. Notably, by the end of 2019, the Company had gained 4795 unique online customers.

Furthering the development of its instalment products in 2019, the Company also increased its total number of instalment customers to 52,000. Instalment remains the most popular product among Crystal's customers, and it is noteworthy that Crystal's market share for instalment product accounts for 100% in the MFO sector and 13% within the banking sector.

Collectively, via the Akido platform, the Company issued 72,161 loans and 50,965,515 GEL in 2019, which accounts respectively for 47% of the number and 15% of the volume of Crystal's total lending.

In November 2019, the Company additionally piloted an Auto Instalment project and launched a special service centre in Rustavi Car Market.

Remote Customer Service Centre New Software Development

In 2019, the Company implemented new call centre software functions to rectify problems and enhance the quality of the service. The software is capable of calculating and generating detailed data over any period of time, whether in total or for specific operators.

Operator performance data has thus become countable and this has simplified their assessment and control. Compared to previous years, conversations with customers have become easier, this therefore saves time and enables operators to serve more customers.

We maintain records and if necessary provide them to the relevant department in a timely manner.

INFORMATION TECHNOLOGIES

In 2019, the Company analysed its IT systems and activities and aligned them with the business strategy, and developed and revised its processes and procedures based on international standards. The relevant standards were enhanced and implemented across all areas. The achievements made in terms of digitalisation and information security were especially striking, with the Company successfully obtaining an ISO 27001 certificate in information security management.

Major services, software applications and core systems were all regularly updated and brought in line with the applicable regulations. While new internal system development strategies and architecture were developed and implemented, and a part of the services were migrated onto the new architecture. Sweeping infrastructural changes were also carried out to optimise and reset the infrastructure. Moreover, a business continuity module was established and successfully tested for a number of critical systems. New systems were thereafter put in place to enhance security and monitoring. Finally, a software development life cycle was devised and implemented, and software versions and code controls were also applied.

Project Management and Business Analysis

The Project Management and Business Analysis unit administers and analyses all projects across the Company, including IT and non-IT developments. The unit also conducts analyses for business needs to precisely identify any anticipated outcomes. Dependent on the demands, Waterfall and Agile methodologies are employed to meet the specifics of each project. From using the Agile methodology, processes in a number of areas have been successfully enhanced and targets reached.

During the year, the small team completed up to 40 successful long-term and non-strategic projects, and likewise actively managed up to 100 projects of varying scales and complexities. As a result, the services delivered to customers developed and improved, which ultimately broadens the effectiveness of the Company.

It is important to highlight such successful projects as Enterprise Resource Planning system, the HR Management System, the Loan Processing and Scoring System, the Decision Management System, the Problem Loan Management System, a 100-day Business Development Plan, alongside alignment with NBG regulations, personnel digitalisation, automation of business processes, etc.

Achievements in Information System Security

The Information System Security unit was developed to cope with increasing security needs and bring the system in line with international standards. It consists of two employees who ensure the security of the Company's information systems.

Under a 1-year project, the Company developed and implemented an international standard in information management security (as per ISO/IEC 27001:2013). As a result, 114 information security controls were covered; 100 processes and procedures were written; the infrastructure was improved; all employees underwent training in information management security; various systems were audited; and information management security projects were realised.

IT Operations

To improve operational support, business continuity and new projects, fresh IT projects and processes have been implemented, including, notable modifications and enhancements to the data centre that ensures the stable and sustained development of the Company.

In terms of business continuity, a critical services continuity plan was developed and tested. Server hardware was upgraded, and server infrastructure was virtualised and optimised. In line with amendments to NBG regulations, major changes were also made in information management security systems, including in customer protection, and server and network infrastructure, that which safeguard the infrastructure and security of IT operations. Dozens of information security recommendations were further implemented and weaknesses remedied.

Personnel digitalisation has been one of our main projects. Thus, the existing e-mail environment was replaced by Office 365, changing how shift business operates, and helping implement various communication and collaboration tools.

Software Development

The unit focuses largely on the development of loan processing, the decision-making system, the development and integration of Akido (our digital platform) and a variety of other services. New loan processing products were added to automate and accelerate the issuing of loans. A business intelligence system was also developed and enhanced.

The major services and software applications were upgraded and, when appropriate, brought in line with the regulations. New approaches and architecture for the development of internal systems were devised and employed, and part of the services were migrated to the new architecture. This unit developed and improved the software development and improvement standard, and a software development life cycle was planned and executed.

Software Quality Assurance

The goal of the SQA team is to identify gaps and deficiencies in projects and software updates, and to ensure the implementation of stable and convenient systems. With a small team, we managed to test and stabilise our projects. Processes were equally developed and realised, based on international standards, that reduced the time required, heightened the testing process and offered further opportunities to properly analyse, plan and automate the testing process.

Crystal's Digital Transformation and Automation

Crystal defined certain objectives to increase staff performance, reduce operational costs, enhance internal communication and collaboration between employees, and to digitalise, automate and optimise its processes.

During the first stage of this process, the staff migrated to Office 365 and soon the system was utilised throughout the whole Company. We thereafter implemented an internal web conferencing and chat application to support effective communication between branches. Besides which, a new internal portal was developed to bring together updates and the other necessary information required for effective and faultless staff performance. The Company moreover started an internal social network that helps staff members effectively accumulate information and communicate with one another. Additionally under the project, an online training platform was developed, and subsequently members of staff received retraining.

The personnel survey undertaken revealed that the average daily time saved by each employee is 45 minutes. The employees surveyed believe that communication improved by 94% and effectiveness improved by 79%, whilst 82% responded that they currently have all the tools necessary for work.

The Company makes extensive use of business process management tools. Such tools made it possible to reset, digitalise and automate business processes in a number of areas;

making business more effective, faster and saving considerable operational, financial and human resources.

A variety of projects were implemented and enhanced, and they have shown impressive results in digitalisation, optimisation and automation:

ERP – the system identifies and systematise non-operational processes in the Company. Currently, the ERP system is used within three major modules: for managerial and financial accounting of procurements, supplies, and fixed assets.

The entire process involving supplies and fixed assets, from the filing of a request to the delivery of an item to a requesting party, is initiated and controlled by the ERP system. Concurrently, managerial transactions are financially captured.

HRMS – the system allows the Company to attain new levels of HR management, which significantly increases administrative effectiveness, thus saving financial and human resources.

Loan Approval Software – the original decision-making and instalment software has been adapted and completely modified. The Company has started the development of a loan platform to deliver fast, optimal processing. Whereby, the system will be able to respond to overdue loans, have CRM capabilities, dynamically manage business processes involving overdue loans, and standardise and automate borrower communication channels.

International Security Standard (ISO/IEC 27001:2013)

The services and products the Company offers its customers must, invariably, meet information security requirements. It is critically important that customers are confident in the security and reliability of their data and services.

Considering the need for information management security, alongside the growing challenges and requirements, it became necessary to bring information security up to the highest level to cope with every modern challenge. Consequently, the Company created the lofty objective to align the security of the Organisation, staff, customers and processes to the current standards, and, furthermore, to implement the best international practices.

Hence, it was decided to adhere to ISO/IEC 27001:2013, an international security standard that covers up to 114 information security controls. The standard fully covers necessary information, security processes and controls; for instance, raising the awareness of all staff members and adjusting complex IT processes to the international security standards.

The Company analysed and assessed risks; organised security training for over 1000 employees; created and formulated hundreds of processes; audited its IT systems; developed and implemented business continuity processes and tests; and brought everything in line with the security standards. By having the ISO 27001 certified international security standard, the Company became the first financial organisation in Georgia to obtain the certificate.

The implementation of the Information Management Security System also enabled us to deliver effective management, control and monitoring.

ANALYTICAL CAPABILITY ENHANCEMENT

Capability Enhancement in Analytics

Crystal is developing a strong culture of data analytics. Where an insight-driven approach to strategy development and execution is becoming our hallmark. In terms of analytics capability enhancement, 2019 was an important year, and there were two major achievements worth emphasising:

1. Awareness raising among decision-makers regarding the advanced uses, and importance, of data analytics. Six data analytics workshops were conducted with a total of 60 participants, including all branch managers. The participants were introduced as to how data analytics can support their daily decision-making processes;
2. The development of loan portfolio informational products and the implementation of near real-time business intelligence. As a result, every day, around 70 decision-makers are using business intelligence to inform their decisions.

GOVERNANCE STATEMENT

crystal Financial Inclusion Organization

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 2019, 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, the Chairman of the Supervisory Board (Georgia), who is a financier, entrepreneur and the founder of Crystal.[1] 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

1 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).

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; Lilit Gharayan (Armenia), independent member, who chairs the Internal Audit Committee;

Activities of the Supervisory Board

In 2019, the SB met four times in-person and five times remotely. The number of each SB committee meetings in 2019:

- Internal Audit Committee - 3;
- ALCO (Assets and Liabilities) Committee - 7;
- Risk Committee - 4;
- Strategy and Innovation Committee - 4;
- 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-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.

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. The Company, throughout 2019, developed modified strategy to address suspicious circumstances where any crime may have transpired. The same strategy will also be followed in the fight against fraud over the next year.

SUPERVISORY BOARD MEMBERS

Archil Bakuradze
Chairman

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
Vice Chairman

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
Member

is the Chairman of the Strategy 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
Member

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
Member

is partner and Head of Private Equity for Developing World Markets (DWM), Mr. Remtula has been a board member and DWM's shareholder representative at Crystal since 2011. He currently heads Crystal's [E&S Committee]. Mr. Remtula started his career in corporate finance at JP Morgan and has nearly 20 years of experience in venture capital and private equity impact investing globally. He holds an MBA from Harvard Business School and Bachelor's degree in Economics and Finance from Princeton University.

Keith Young
Member

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.

Michaël Blockx
Alternative Member

Michaël supports Incofin IM's Global Private Equity Operations since 2018, based out of the Incofin Antwerp office. He is a member of the Incofin IM AIFM equity investment committee.

Michaël has over 16 years of experience in private equity, strategy consulting and consumer goods industry. He worked with Procter & Gamble as a financial analyst for 2 years. He was a consultant with BCG – The Boston Consulting Group for 4 years.

Next, Michaël was investment manager for close to 4 years at Delta Partners Capital. In his most recent role before joining Incofin, he was project manager for 3 years with Roland Berger, a strategy consultant.

Michael holds a Master Science (Electronics Engineering) and Bachelor Science (Economics) from KU Leuven, Belgium. He also obtained the Level 1 CFA.

Suma Swaminathan
Alternative Member

Vice President, Private Equity at Developing World Markets (DWM). Suma Swaminathan has been board alternative member since 2020 and DWM's shareholder representative at Crystal. Prior to joining DWM, Suma worked as a Senior Valuation Consultant at Empire Valuation

Consultants, a boutique consulting firm in NYC. She has experience leading and managing the valuation of publicly and privately held companies' equity, debt, and complex assets/securities for the purposes of potential investments, financial reporting, and corporate planning.

She has also worked in technology at Capital One Auto Finance through Infosys Technologies. Suma received her MBA from NYU's Stern School of Business, where she was designated a Faculty Scholar for Social Enterprise based on her work with weaver cooperative societies in the handloom industry in India. She holds a Bachelor's degree in Electrical Engineering from Osmania University in Hyderabad, India.

MANAGEMENT TEAM COMPOSITION AND QUALIFICATIONS

Ilia Revia
Chief Executive Officer

is the Chief Executive Officer of MFO Crystal. He is an accomplished project manager and IT governance specialist with extensive experience leading change management projects in the IT and banking sectors. He began his career as a web developer, moving into IT Project Management for a US Law firm in 2007-2009 and DPK Consulting in 2009. Joining the Bank of Georgia in 2009, he rose to Deputy Chief Information Officer in 2014, leading several complex projects including the acquisition of PrivatBank Georgia and an agile transformation initiative, appointed as MFO Crystal's CEO since June 2019. Since 2011, he has been a project management consultant for several public and private organizations and was a lecturer in Project Management and Management Information Systems at Free University of Tbilisi until 2019. Ilia is a certified Project Management Professional (PMP) with graduate degrees in Project Management from George Washington University, and IT and Business Innovation from Jönköping University in Sweden, as well as an undergraduate Mathematics degree from the Georgian Technical University.

Davit Bendeliani
Chief Financial Officer

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.

Melania Kutchukhidze
Chief Business Officer

is the Chief Business Officer of MFO Crystal. She is an established senior executive and management expert with 14 years of leadership experience in the financial sector, having first served as Head of Retail and Small Business Development at VTB Bank Georgia from 2006-2010. From 2010-2015 she was Head of Network Management Department at Constanta Bank, before taking over the Micro Business Management Team at TBC Bank in Tbilisi until 2016. She joined Crystal in 2018 as Head of Network Management after being Commercial Director for the Lisi Green Urban Project for two years. She was appointed as Crystal's Deputy Chief Business Officer in 2019, and Chief Business Officer in May 2020. Melania is a masters graduate in Management from VTB Bank Corporate University and holds an undergraduate degree in Economics and Management from the Georgian Subtropical Business University.

Manuchar Chitaishvili
Chief Innovations Officer

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.

Beka Tsitskishvili
Chief Information Officer

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 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.

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Organization

FINANCIAL
STATEMENTS

crystal Financial Inclusion Organization

JSC MICROFINANCE ORGANIZATION CRYSTAL

Consolidated Financial Statements and Independent Auditor's Report For the Year Ended December 31, 2019

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, 2019 were authorized for issue on July 10, 2020 by the Board of Directors of the Group.

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer

July 10, 2020
Tbilisi, Georgia

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 Auditors' Report

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

Opinion

We have audited the consolidated 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 31 December 2019, 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 31 December 2019, 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 Consolidated 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 consolidated financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was 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 this matter.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Allowance for expected credit losses on loans and advances to customers Assessment and measurement of the expected credit losses is performed on a collective basis for loans 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 to the appropriate stage of impairment. In particular we focused on: • The principal assumptions and significant inputs underlying the estimation of ECL and corresponding risk rating system for performing loans and the integrity of the models to make those calculations; • Timely identification of significant increase in credit risk and event of default based on quantitative and qualitative factors; • The principal assumptions and significant inputs underlying the calculation of loss given default for defaulted loans (stage 3). Due to the complexity of methodology, subjectivity of certain assumptions used in the impairment models and the significance of the balance of the 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 updated understanding of the Group's processes and relevant control procedures over the management's assessment and measurement of expected credit losses, including the controls over timely identification of a significant increase in credit risk and risk of default. We challenged the assumptions used in risk rating system, tested input data and analyzed the integrity of those models. Our work included the following procedures: • With the assistance of our credit risk and actuarial experts we assessed the changes in methodology implemented during 2019, with reference to the accounting standards and market practices. We analysed the potential effects on the increase in credit risk and measurement of ECL of the information, which might not have been captured by management's models; • We analyzed the principal assumptions used in assessment of probability of default in respect of loan falling into default and any recoveries expected from defaulted loans with reference to our knowledge of industry practices, the Group's actual experience and available and relevant forward-looking information; • On a risk based sample basis we ascertained whether the significant increase in credit risk and the event of default had been identified in a timely manner including, where relevant, how forbearance had been considered; • On a risk based sample basis, we tested significant underlying input data (aging, exposure at default, recovery of loans after default, forward looking information). • We also tested the integrity of the credit models used to calculate ECL by performing selective recalculations and comparing the results. • We have checked completeness and accuracy of disclosures related to ECL.

Other Information

Management is responsible for the other information. The other information comprises the information included in the management report prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of consolidated the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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. We have nothing to report in this regard.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

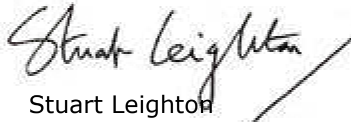
Management is responsible for the preparation of the management report in accordance with the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of the management report that is free from material misstatement,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

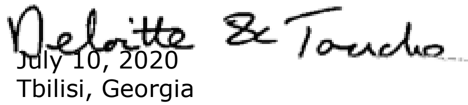
We have selected and performed procedures based on our judgment, including but not limited to inquiries, analysis and review of documentation, comparison of the Group's policies, procedures, methodologies and reported information with the requirements of the Law of Georgia on Accounting, Reporting and 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, 2019 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, 2019 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, 2019 is consistent, in all material respects, with the consolidated financial statements for the year ended December 31, 2019.



Stuart Leighton



July 10, 2020
Tbilisi, Georgia

	Notes	2019	2018
Interest income	5	73,997	72,743
Interest expense	5	(22,634)	(20,220)
Net interest income before impairment losses on interest bearing assets		**51,363**	**52,523**
Impairment losses on interest bearing assets	12	(8,680)	(8,544)
Net interest income		**42,683**	**43,979**
Fee and commission income	6	1,319	2,452
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	11	2,133	(1,523)
Net foreign exchange loss		(6,805)	(6,205)
Other income		230	111
Net non-interest expenses		**(3,123)**	**(5,165)**
Operating income		**39,560**	**38,814**
Personnel expenses	7	(21,808)	(17,870)
Depreciation and amortization expenses	13, 14, 15	(4,651)	(2,405)
Other operating expenses	8	(12,459)	(11,360)
Profit before income tax		**642**	**7,179**
Income tax expense	9	(966)	(1,746)
Net profit for the year		**(324)**	**5,433**
Other comprehensive income		-	-
Total comprehensive income for the year		**(324)**	**5,433**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer

July 10, 2020
Tbilisi, Georgia

The notes on pages 65-147 form an integral part of these consolidated financial statements.

crystal Financial Inclusion Organization

	Notes	December 31, 2019	December 31, 2018
ASSETS			
Cash and cash equivalents	10	20,106	13,953
Financial assets at fair value through profit or loss	11	-	442
Loans to customers	12	297,211	264,608
Property and equipment	13	5,602	7,699
Right-of-use assets	14	3,577	-
Intangible assets	15	2,564	1,552
Current income tax asset		469	-
Deferred tax assets	9	3,411	2,500
Other assets	16	4,155	4,293
Total assets		**337,095**	**295,047**
LIABILITIES			
Financial liabilities at fair value through profit or loss	11	4,292	1,659
Borrowed funds	17	253,983	230,917
Debt securities issued	18	12,667	9,945
Lease liability	14	3,914	-
Current income tax liability		-	104
Dividends payable	20	767	-
Other liabilities	19	1,610	1,435
Total liabilities		**277,233**	**244,060**
EQUITY			
Share capital	20	3,635	3,061
Share premium	20	22,110	12,718
Share based payment reserve	20	-	-
Retained earnings		34,117	35,208
Total liabilities and equity		**337,095**	**295,047**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer

July 10, 2020
Tbilisi, Georgia

The notes on pages 65-147 form an integral part of these consolidated financial statements.

FINANCIAL STATEMENT

	Notes	Share capital	Share premium	Share based payment reserve	Retained earnings	Total
January 1, 2018		**3,052**	**12,551**	**68**	**30,645**	**46,316**
Total comprehensive income for the year		-	-	-	5,433	5,433
Dividends declared	20	-	-	-	(870)	(870)
Share based payment accrual	20	-	-	108	-	108
Increase in share capital arising from share-based payment	20	9	167	(176)	-	-
December 31, 2018		**3,061**	**12,718**	**-**	**35,208**	**50,987**
Total comprehensive income for the year		-	-	-	(324)	(324)
Issue of preferred shares	20	574	9,392	-	-	9,966
Dividends declared	20	-	-	-	(767)	(767)
December 31, 2019		**3,635**	**22,110**	**-**	**34,117**	**59,862**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer

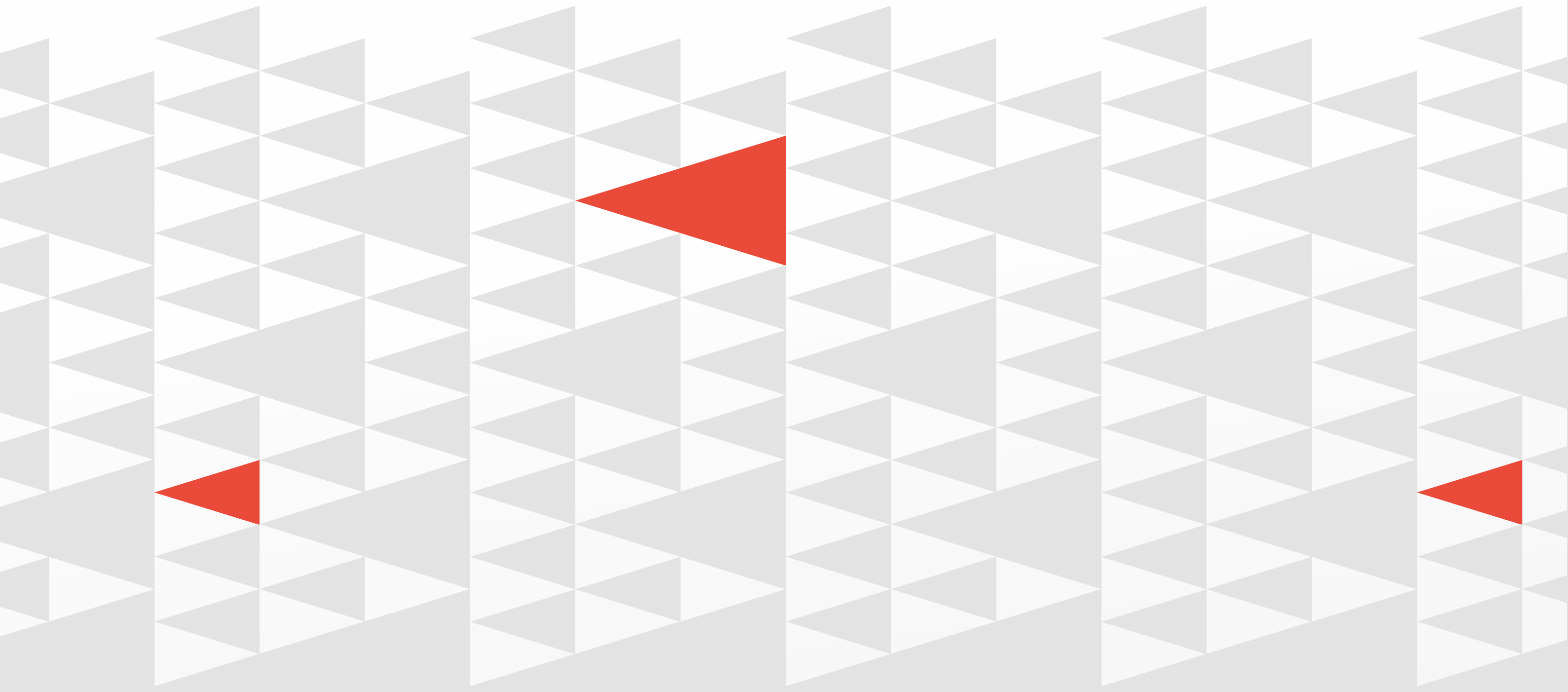
July 10, 2020
Tbilisi, Georgia

The notes on pages 65-147 form an integral part of these consolidated financial statements.

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		642	7,179
Adjustments for:			
Net (gain)/loss on financial assets and liabilities at fair value through profit or loss		(2,133)	1,523
Depreciation and amortization expenses	13,14,15	4,651	2,405
Interest income	5	(73,997)	(72,743)
Interest expenses	5	22,634	20,220
Impairment losses on interest bearing assets	12	8,680	8,544
Net foreign exchange loss		6,805	6,205
Loss on disposal of property and equipment		146	27
Equity settled share-based payments	20	-	108
Cash outflow from operating activities before changes in operating assets and liabilities		**(32,572)**	**(26,532)**
Changes in operating assets and liabilities:			
Net increase in financial liabilities/net decrease in financial assets at fair value through profit or loss		5,208	688
Increase in loans to customers		(39,809)	(71,549)
Decrease/(Increase) in other assets		159	(682)
(Decrease)/increase in other liabilities		(70)	50
Net changes in operating assets and liabilities		**(34,512)**	**(71,493)**
Interest received		73,045	69,187
Interest paid		(22,157)	20,074
Income tax paid		(2,450)	(2,485)
Net cash used in operating activities		**(18,646)**	**(51,397)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	13	(1,374)	(4,476)
Purchases of intangible assets	15	(1,434)	(597)
Proceeds from sale of property and equipment		58	24
Net cash used in investing activities		**(2,750)**	**(5,049)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowed funds	17	95,883	130,757
Repayments of borrowed funds	17	(81,106)	(74,175)
Proceeds from issue of debt security	18	12,500	-
Repayments of debt security	18	(9,964)	-
Repayments of lease liabilities	14	(871)	-
Proceeds from shares issue	20	9,966	-
Dividends paid	20	-	(870)
Net cash provided by financing activities		**26,408**	**55,712**
Net increase/(decrease) in cash and cash equivalents		**5,012**	**(734)**
Effect of exchange rate changes on the balance of cash held in foreign currencies		1,141	367
Cash and cash equivalents as at the beginning of the year	10	13,953	14,320
Cash and cash equivalents as at the end of the year	**10**	**20,106**	**13,953**

On behalf of the Board of Directors:
Ilia Revia
Chief Executive Officer

July 10, 2020 Tbilisi, Georgia
The notes on pages 65-147 form an integral part of these consolidated financial statements.


crystal
Financial Inclusion
Organization

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 Consulting LLC. The subsidiary is now gradually starting the operations and its major activities will be business consulting, organizational development, leadership, technical and technological advice and service provision for micro and small entrepreneurs.

The legal address of JSC Microfinance Organization Crystal and Crystal Consulting 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 Management Team 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, agricultural loans, consumer loans, pawnshop loans, housing loans and SME loans.

As at December 31, 2019 the Group has forty-eight branches (compared to 2018: forty branches and twenty-two service centers (so called "boutiques")) around Georgia and the head offices are located in Tbilisi and Kutaisi.

As at December 31, 2019 and 2018 the following shareholders owned the Group:

	December 31, 2019	December 31, 2018
First level shareholders/holders of the issued share capital:		
Fund Crystal	46.53%	47.37%
AGRIF COÖPERATIEF U.A.	37.12%	37.12%
DWM Funds S.C.A-SICAV SIF	12.37%	12.37%
Management of the Group	3.14%	3.14%
Keith Young	0.84%	0.00%
Total	**100%**	**100%**

As at December 31, 2019 and 2018 the Group's major shareholder is Fund Crystal with 46.53% 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, 2019 and 2018, the Members and ultimate controlling parties of the fund are as follows: Archil Bakuradze, Paata Tsotsonava, Alu Gamakharia, Frederick Rignold Hyde-Chambers and Keith Young. Members have equal voting rights in Fund Crystal.

FINANCIAL STATEMENT

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").

Basis of consolidation - The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (subsidiaries). Control is achieved when the Company: a) has power over the investee; b) is exposed, or has rights, to variable returns from its involvement with the investee; and c) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including: the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders; potential voting rights held by the Group, other vote holders or other parties; rights arising from other contractual arrangements; and any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Going concern - 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. In making this assumption, the management considered the Group's financial position, current intentions, profitability of operations and access to financial resources.

As of December 31, 2019 current liabilities exceeded current assets by GEL 84,888. During the year 2019 and 2018 the Group had net loss of GEL 324 and net profit of GEL 5,433, respectively.

In addition, economic impact due to spread of COVID-19 resulted in revision of financial forecasts for the year 2020 and approval of Business Continuity Plan. Considering the COVID-19 impact, the Group has assessed average lending rate to drop by 25%. In addition, a 3-month grace period was offered to customers, which also had negative impact on the Group's operations. Although, subsequent to the reporting date, the Group has received approximately GEL 60 mln in additional funding from investors, which is four times exceeding the required level of liquidity and has reduced the risk of liquidity the during COVID 19 outbreak. Due to net loss in 2019 and COVID 19 in 2020 the Group has breached number of covenants as at and after the reporting date. In order to keep all lenders in the loop of ongoing processes, the Group is preparing weekly reports from the outbreak of the crisis to its peak (March-April) and sending them to the creditors on behalf of CEO. The reports thoroughly described: decisions made by the Group, work mode, deferral of client liabilities, liquidity, restrictions imposed by the government and their impact;

Group had intensive communication with foreign lenders to obtain waivers. In addition, there has never been a case of a lender recalling facility ahead of time. On the contrary, some lenders proposed a deferral of repayments (Symbiotics, Responsibility), while others provided Group with resources (Bloorchard, EIB), including a new facility of USD 5 mln from Blueorchard, extended after the start of the crisis. For details refer to Note 26.

The Group has established Business Continuity Plan and Board, which is closely monitoring the financial situation of the Group. The Board has prepared projections for the following five years considering three scenarios: baseline, optimistic and pessimistic. The projections were prepared based on NBG scenarios published publicly and considering all the actions taken by the Georgian Government against COVID 19. The Baseline projection was approved by the Supervisory Board and will be used by the Group until the end of the year. The Group's management believes that based on current forecasts and measures, the Group has enough funds to continue its activities in the foreseeable future.

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: a) 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. B) 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. Penalty income is included in interest income, as considered compensation of credit risk.

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.

Preferred stock
The holders of preferred stock are entitled to receive dividends at annual interest rate of 10%. Preferred stock is classified as equity, since according to Georgian legislation any promise of dividends is void and based on profit for the year and management decision.

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

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

Leases – applicable after January 1, 2019

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient.

The Group is not represented as Lessor during the years ended December 31, 2019 and 2018.

Leases – applicable before January 1, 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised 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 recognised 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 recognised as a liability. The aggregate benefit of incentives is recognised 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.

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 Group's income tax and it also affects the Group's deferred income tax assets/liabilities. Financial institutions 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 financial 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 3,411 thousand and GEL 2,500 thousand as at December 31, 2019 and 2018, 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

The Group did not early adopt any other standards, amendments or interpretations that have been issued and are not yet effective. The application of other new and revised IFRSs effective for periods beginning on or after January 1, 2019 are set out below:

IFRS 16 Leases

The Group has adopted IFRS 16 Leases from January 1, 2019. 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 are 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.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. The right-of-use asset and lease liability in the amount of GEL 4,294 thousand was recognized as at 1 January, 2019. The discount rate used is 7.6%. Weighted average lease term is 4.8 years.

The following table shows the operating lease commitments disclosed applying IAS 17 at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

Total operating lease commitments disclosed as of 1 January, 2019	**443**
• Short-term leases and leases of low-value assets	(10)
• Effect of discounting the above amounts	(7)
• Additions due to lease maturity changes	3,868
Lease liabilities recognised at 1, January 2019	**4,294**

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The Group has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. The adoption did not result in material impact on the Group's consolidated financial statements.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The Group has adopted the amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Group applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Group does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28. The adoption did not result in material impact on the Group's consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group 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 Group 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 Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

The adoption did not result in material impact on the Group's consolidated financial statements.

Amendments to IAS 19 Employee Benefits

The Group has adopted the amendments of IAS 19 prospectively for the first time in the current year. 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 adoption did not result in material impact on the Group's consolidated financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle

The Group has adopted the amendments included in the Annual improvements to IFRS standards 2015-2017 Cycle for the first time in the current year. 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.

The amendments did not result in material impact on the Group's consolidated financial statements.

New and revised Standards in issue but not yet effective

At the date of authorization of these financial statements, the Group has not applied the following new and revised IFRS standards that have been issued but are not yet effective:

- IFRS 17 – Insurance Contracts
- IFRS 10 and IAS 28 (amendments) – Sale of Contribution of Assets between an investor and its Associate or Joint Venture
- Amendments to IFRS 3 – Definition of business
- Amendments to IAS 1 and IAS 8 – Definition of material
- Conceptual Framework – Amendments to References to the Conceptual Framework in IFRS Standards

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.

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.

Amendments to IFRS 3 Definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application 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 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the *Conceptual Framework* that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application 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 References to the Conceptual Framework in IFRS Standards

Together with the revised *Conceptual Framework*, which became effective upon publication on 29 March 2018, the IASB has also issued *Amendments to References to the* Conceptual Framework in *IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC *Framework* adopted by the IASB in 2001, the IASB *Framework* of 2010, or the new revised *Framework* of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application 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.

5. NET INTEREST INCOME

	2019	2018
Interest income calculated using the effective interest rate method:		
Loans to customers	71,634	71,067
Cash and cash equivalents	321	49
Other income	121	-
	71,955	**71,116**
Other interest income:		
Penalty income	2,042	1,627
Total interest income on financial assets measured at amortised cost	**73,997**	**72,743**
Interest expenses		
Borrowed funds	(19,885)	(19,052)
Debt securities issued	(2,437)	(1,168)
Lease liability	(312)	-
	(22,634)	**(20,220)**
Net interest income	**51,363**	**52,523**

6. FEE AND COMMISSION INCOME

	2019	2018
Fee and commission income from foreign currency conversion	881	2,127
Other fee and commission income	438	325
	1,319	**2,452**

7. PERSONNEL EXPENSES

	2019	2018
Salaries and other benefits	21,808	17,588
Equity settled share-based payments	-	135
Expenses related to Management Incentive Plan	-	147
	21,808	**17,870**

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, 2018 and the remuneration package of the MIP was formed by fulfilment of:

a) Overall group milestones-55%

b) Individual targets-30%

c) Skills performance-5%

d) Supervisory Board discretion-10%

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.

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.

As at and for the year ended December 31, 2019, MIP was neither designed nor recognized and distributed, as decided by the Supervisory Board.

8. OTHER OPERATING EXPENSES

	2019	2018
Expense related to short-term leases and low-cost items	3,309	3,776
Utilities and communication	1,619	1,269
Legal and other professional services	1,061	556
Bank charges	969	763
Membership fees	922	483
Consumables and office supplies	574	555
Marketing and advertising	486	474
Fuel	416	445
Business trips	369	543
Insurance	325	352
Repairs and maintenance	223	237
Security	203	174

	2019	2018
Personnel training and recruitment	145	246
Taxes other than on income	143	260
Research for own software development	124	-
Charity	55	73
Other	1,516	1,154
	12,459	**11,360**

9. TAXATION

	2019	2018
Current year tax expense	1,877	2,292
	1,877	**2,292**
Movement in deferred tax assets and liabilities due to origination or/ and reversal of temporary differences	(911)	(546)
Total income tax expense	**966**	**1,746**

The applicable tax rate for current and deferred tax is 15% for the years ended December 31, 2019 and 2018.

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

	2019	2018
Profit before tax	**642**	**7,179**
Income tax at the statutory rate	96	1,077
Unrecognized deferred tax	864	638
Tax effect of permanent differences	6	31
Total income tax (benefit)/expense	**966**	**1,746**

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, 2019 and 2018.

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

Movements in temporary differences during the years ended 31 December 2019 and 2018 are presented as follows.

	January 1, 2019	Recognized in profit or loss	December 31, 2019
Loans to customers	2,206	813	3,019
Property and equipment	(37)	2	(35)
Intangible assets	18	(75)	(57)
Other assets	(85)	65	(20)
Financial liabilities at fair value through profit or loss	146	(159)	(13)
Loans and borrowings	389	(55)	334
Lease liability	-	51	51
Other liabilities	(137)	269	132
	2,500	**911**	**3,411**

	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)	(237)
	1,954	**546**	**2,500**

10. CASH AND CASH EQUIVALENTS

	December 31, 2019	December 31, 2018
Cash on hand	11,785	9,780
Bank balances	8,321	4,173
Total cash and cash equivalents	**20,106**	**13,953**

None of the balances with Group are past due. No loss allowance is recognised for balances with banks due to short-term nature. Group 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, 2019 and 2018 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, 2019	December 31, 2018
Financial assets at fair value through profit or loss		
Derivative financial assets		
Foreign currency forward contracts	-	405
Currency swap contracts	-	37
Financial assets at fair value through profit or loss	-	442

	December 31, 2019	December 31, 2018
Financial liabilities at fair value through profit or loss		
Derivative financial liabilities		
Foreign currency forward contracts	(2,315)	-
Currency swap contracts	(1,977)	(1,659)
Financial liabilities at fair value through profit or loss	**(4,292)**	**(1,659)**

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, 2019 and 2018 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, 2019	**December 31, 2018**
Sell USD buy GEL		
Less than 3 months	12,159	13,383
Between 3 and 12 months	101,517	98,767
	113,676	**112,150**

12. LOANS TO CUSTOMERS

	December 31, 2019	December 31, 2018
Principal	302,007	267,639
Accrued interest	8,477	7,525
Less: expected credit losses	(13,273)	(10,556)
Total loans to customers	**297,211**	**264,608**
Analysis by sector:		
Service	86,853	67,010
Agriculture	82,049	79,203
Consumer	61,923	64,371
Trade	47,115	42,112
Pawn shop	22,189	13,016
Manufacturing	10,355	9,452
Total loans to retail customers	**310,484**	**275,164**
Gross loans to customers		
Less: expected credit losses	(13,273)	(10,556)
Net loans to customers	**297,211**	**264,608**

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, 2019:

	Gross carrying amount	Loss allowance	Carrying amount
Loans to retail customers:			
Service	86,853	(3,478)	83,375
Agriculture	82,049	(4,973)	77,076
Consumer	61,923	(1,774)	60,149
Trade	47,115	(2,272)	44,843
Pawn shop	22,189	(27)	22,162
Manufacturing	10,355	(749)	9,606
Total loans to customers	**310,484**	**(13,273)**	**297,211**

FINANCIAL STATEMENT

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:			
Service	67,010	(2,294)	64,716
Agriculture	79,203	(4,229)	74,974
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.

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

	2019			
	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	3,224	3,991	3,341	10,556
New loans originated	4,780	-	-	4,780
Transfer to 12-month ECL	105	(105)	-	-
Transfer to lifetime ECL not credit-impaired	(6,386)	6,398	(12)	-
Transfer to lifetime ECL credit-impaired	-	(6,287)	6,287	-
Repaid loans	(1,648)	(933)	(200)	(2,781)
Written off for the year	(10)	(4)	(7,368)	(7,382)
Recoveries of previously written off	8	5	1,180	1,193
Changes due to change in credit-risk	2,895	867	2,919	6,681
Interest income correction	-	-	196	196
Foreign exchange gain	7	10	13	30
Balance at the end of the year	**2,975**	**3,942**	**6,356**	**13,273**

Respective movements in the gross carrying amounts of loans to customers for the year ended December 31, 2019 are as follows:

	2019			
	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	210,741	58,959	5,464	275,164
New loans originated	234,083	-	-	234,083
Transfer to 12-month ECL	8,077	(8,077)	-	-
Transfer to lifetime ECL not credit-impaired	(82,017)	82,089	(72)	-
Transfer to lifetime ECL credit-impaired	-	(8,379)	8,379	-
Repaid loans	(156,359)	(39,805)	3,007	(193,157)
Written off for the year	(10)	(4)	(7,368)	(7,382)
Recoveries of previously written off	8	5	1,180	1,193
Foreign exchange loss	404	160	19	583
Balance at the end of the year	**214,927**	**84,948**	**10,609**	**310,484**

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)

FINANCIAL STATEMENT

	2018			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL - not credit-impaired**	**Stage 3 Lifetime ECL – credit-impaired**	**Total**
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 loss	(12)	(14)	(13)	(39)
Balance at the end of the year	**3,224**	**3,991**	**3,341**	**10,556**

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)	(1,115)	(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 gain	31	9	1	41
Balance at the end of the year	**210,741**	**58,959**	**5,464**	**275,164**

13. PROPERTY AND EQUIPMENT

	Buildings	Vehicles	Furniture	IT equipment	Leasehold improve-ments	Other	Total
Cost							
at January 1, 2019	105	1,184	1,024	2,938	5,194	4,901	15,346
Additions	-	-	172	267	598	337	1,374
Disposals	-	-	(9)	(13)	(442)	(181)	(645)
Transfers	-	-	42	207	737	(986)	-
at December 31, 2019	**105**	**1,184**	**1,229**	**3,399**	**6,087**	**4,071**	**16,075**
Accumulated depreciation							
at January 1, 2019	(38)	(376)	(628)	(1,470)	(2,855)	(2,280)	(7,647)
Depreciation for the year	(3)	(231)	(181)	(454)	(1,835)	(563)	(3,267)
Eliminated on disposals	-	-	7	13	344	77	441
at December 31, 2019	**(41)**	**(607)**	**(802)**	**(1,911)**	**(4,346)**	**(2,766)**	**(10,473)**
Carrying amount							
At December 31, 2019	**64**	**577**	**427**	**1,488**	**1,741**	**1,305**	**5,602**

	Buildings	Vehicles	Furniture	IT equipment	Leasehold improve-ments	Other	Total
Cost							
at January 1, 2018	105	650	848	2,072	4,491	2,924	11,090
Additions	-	329	112	663	848	2,524	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**	**4,901**	**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**	**2,621**	**7,699**

Other property and equipment mainly consist of security systems and generators. As at December 31, 2019 and December 31,2018 fully depreciated items represented GEL 2,793 and GEL 2,848, respectively. There are no capitalized borrowing costs related to the acquisition or construction of property and equipment during the year ended December 31, 2019 and 2018.

14. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	Buildings and Offices	Vehicles	Total
Cost			
Balance at 1 January 2019	3,516	778	4,294
Modification of leases	-	245	245
Balance at 31 December 2019	**3,516**	**1,023**	**4,539**
Depreciation			
Balance at 1 January 2019	-	-	-
Depreciation for the year	(659)	(303)	(962)
Balance at 31 December 2019	**(659)**	**(303)**	**(962)**
Carrying amount			
At 31 December 2019	**2,857**	**720**	**3,577**

Movements in lease liabilities in 2019 were as follows:

	2019
Initial recognition	4,294
Additions	245
Interest expense	312
Foreign exchange (gain) / loss	246
Repayment of lease interest	(312)
Repayment of lease principal	(871)
Total	**3,914**

Weighted average lease term for the right-of-use assets is 4.8 years and the weighted average lessee's incremental borrowing rate applied to the lease liabilities is 7.6%.

FINANCIAL STATEMENT

Maturity Analysis	Amounts payable under finance leases	Future finance charges
Year 1	1,004	256
Year 2	1,096	169
Year 3	745	95
Year 4	587	49
Year 5	411	21
Year 6	71	1
Total lease liability	**3,914**	**591**

Amounts recognised in profit and loss	2019
Depreciation expense	(962)
Interest expense	(312)
Foreign exchange effect	(246)
Expenses related to short-term leases and low-cost items	(3,309)
Total	**(4,829)**

15. INTANGIBLE ASSETS

	Intangible assets
Cost	
at 1 January 2018	**2,370**
Additions	597
at December 31, 2018	**2,967**
Additions	1,434
at December 31, 2019	**4,401**
Accumulated amortization	
at January 1, 2018	**(1,045)**
Amortization for the year	(370)
at December 31, 2018	**(1,415)**
Amortization for the year	(422)
at December 31, 2019	**(1,837)**
Carrying amounts	
At December 31, 2018	**1,552**
At December 31, 2019	**2,564**

Intangible assets include software and licenses, including work-in-process internally developed software in an amount of GEL 289 thousand.

16. OTHER ASSETS

	December 31, 2019	December 31, 2018
Other receivables	2,297	1,705
Total other financial assets	**2,297**	**1,705**
Prepayments	937	2,041
Repossessed assets	683	547
Inventory	130	-
Taxes other than income	108	-
Total other non-financial assets	**1,858**	**2,588**
Total other assets	**4,155**	**4,293**

Due to short-term nature of other receivables no ECL loss allowance is recognised as at December 31, 2019 and 2018. Other receivables include money transfer receivables from Paybox Machine Operators that are settled shortly after the reporting date.

17. 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, 2019	December 31, 2018
Loans from financial institutions	248,235	226,563
Subordinated debt	5,748	4,354
Total borrowed funds	**253,983**	**230,917**

	December 31, 2019	December 31, 2018
Principal	250,604	227,829
Interest accrued	3,379	3,088
Total borrowed funds	**253,983**	**230,917**

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

	December 31, 2019	December 31, 2018
Non-current liabilities		
Borrowed funds	-	157,871
Current liabilities		
Borrowed funds	253,983	73,046
Total borrowed funds	**253,983**	**230,917**

Subordinated debt

As at December 31, 2019, subordinated debt is unsecured loan received from an international financial organization, Bank Im Bistum Essen EG, maturing in 2025 amounting to GEL 5,748 thousand with annual interest rate of 9%.

As at December 31, 2018 subordinate debt is unsecured loan received from an international financial organization, KfW, which matured in 2019 amounting to GEL 4,354 thousand 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:

				December 31, 2019	December 31, 2018
	Currency	**Nominal interest rate**	**Year of maturity**	**Carrying Amount**	**Carrying Amount**
Unsecured loans from financial institutions	USD	4.26% - 11.58%	2019 – 2024	112,687	127,348
Unsecured loans from financial institutions	GEL	11.03% - 14.03%	2019 – 2024	135,548	98,763
Unsecured loans from financial institutions	EUR	5.00%-6.63%	2019	-	452
Unsecured subordinated debt	GEL	9.08% - 11.00%	2019 - 2025	5,748	4,354
Total borrowed funds				**253,983**	**230,917**

Reconciliation of changes arising from financing activities

	January 1, 2019	Receipt of loans during the year 2019	Repay-ment of loans during the year 2019	Interest accrual during the year 2019	Interest paid during the year 2019	Foreign exchange loss during the year 2019	December 31, 2019
Borrowed funds	230,917	95,883	(81,106)	19,885	(19,594)	7,998	**253,983**

	January 1, 2018	Receipt of loans during the year 2018	Repay-ment 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

In March 2019 the Group signed a credit line agreement with JSC Pasha Bank Georgia with an available facility of GEL 2,500 thousand expiring in 2020.

In June 2019 the Group signed a credit line agreement with JSC TBC Bank with an available facility of GEL 10,000 thousand expiring in 2020.

In July 2019 the Group signed a credit line agreement with JSC Bank of Georgia with an available facility of USD 2,000 thousand expiring in 2020.

In December 2019 the Group signed a credit line agreement with JSC TBC Bank with an available facility of GEL 7,400 thousand expiring in 2020.

In December 2019 the Group signed a credit line agreement with JSC Bank of Georgia with an available facility of USD 3,000 thousand expiring in 2020.

In December 2019 the Group signed a credit line agreement with JSC Bank of Georgia with an available facility of GEL 10,000 thousand expiring in 2020.

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.

Due to overall financial results of the Group as at and for the year ended December 31, 2019, it is in breach of profitability ratios under most of its credit agreements on funding obtained from local banks, International Finance Institutions (IFI), Development Finance Institutions (DFI) and Microfinance Investment Vehicles (MIV). According to IAS 1 "Presentation of Financial Statements", the management classified borrowed fund from all respective parties as current liabilities, which in turn resulted in a breach of liquidity ratios with multiple lenders. The total amount of the borrowed funds classified as current and presented in up to 1-month maturity category for liquidity risk management disclosure purposes as at December 31, 2019 equals GEL 253,759 thousand.

18. 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, 2019	December 31, 2018
Principal	12,407	9,871
Interest accrued	260	74
Total debt securities issued	**12,667**	**9,945**

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

	December 31, 2019	December 31, 2018
Non-current liabilities		
Debt securities issued	12,407	-
Current liabilities		
Debt securities issued	260	9,945
Total debt securities issued	**12,667**	**9,945**

Corporate bond

Debt securities issued includes Corporate Bond. As at December 31, 2019 debt securities include corporate bond issued by the Group in March, 2019 with a face value of GEL 12.5 million maturing in February, 2021. The bond bears a contractual rate of interest of 4% over the National Bank of Georgia's refinancing rate per annum on the notional amount.

As at December 31, 2018 debt securities include corporate bond issued by the Group in December, 2017 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, 2019 Carrying Amount	December 31, 2018 Carrying Amount
Debt securities issued	**GEL**	**4%+NBG refinancing rate**	**2021**	**12,667**	**-**
Debt securities issued	GEL	4.5%+NBG refinancing rate	2019	-	9,945
Total debt securities issued				**12,667**	**9,945**

Reconciliation of changes arising from financing activities:

	January 1, 2019	Receipt of debt securities during the year 2019	Repayment of debt securities during the year 2019	Interest accrual during the year 2019	Interest paid during the year 2019	Foreign exchange gain during the year 2019	December 31, 2019
Debt securities issued	9,945	12,500	(9,964)	2,437	(2,251)	-	**12,667**

	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**

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19. OTHER LIABILITIES

	December 31, 2019	December 31, 2018
Other payables	781	692
Accruals for employee compensation	822	579
Total other financial liabilities	**1,603**	**1,271**
Taxes other than on income	-	83
Other non-financial liabilities	7	81
Total other non-financial liabilities	**7**	**164**
Total other liabilities	**1,610**	**1,435**

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 are provided in Note 7.

20. SHARE CAPITAL AND RESERVES

Share capital

Share capital as at December 31, 2019:

Shareholder	Number of shares	Common/ non-redeemable preference	Share %	Voting rights	Capital GEL
Fund Crystal	1,424,515	Common	46.53%	46.53%	1,424
AGRIF COÖPERATIEF U.A.	1,136,157	Common	37.12%	37.11%	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
Keith Young	25,677	Common	0.84%	0.84%	26
	3,061,182		**100.00%**	**100.00%**	**3,061**
DWM Funds S.C.A-SICAV SIF	304,613	Preferred	53.12%	0.00%	305
AGRIF COÖPERATIEF U.A.	268,781	Preferred	46.88%	0.00%	269
	573,394		**100.00%**	**0.00%**	**574**

Share capital as at December 31, 2018:

Shareholder	Number of shares	Common/ non-redeemable preference	Share %	Voting rights	Capital GEL
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**

All ordinary 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.

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 22,110 thousand and GEL 12,718 thousand for the years ended December 31, 2019 and December 31, 2018, respectively. The addition in 2019 is a result of preferred share issue in March 2019. The whole movement for the year 2018 is attributable to the MIP 2017 distribution.

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.

The holders of preferred stock are entitled to receive dividends at annual interest rate of 10%. According to Georgian legislation any promise of dividends is void and based on profit for the year and management decision.

Based on shareholders' decisions, dividends of GEL 767 thousand and GEL 870 thousand, were declared for the years 2019 and 2018, respectively.

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.

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 2019 and 2018 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world, resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving, it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to, such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Georgian economy.

22. RELATED PARTY TRANSACTIONS

Control relationships

As at December 31, 2019 the Group's major shareholder and ultimate controlling party is Fund Crystal with 46.53% 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, 2019 and 2018 is as follows:

	2019	2018
Salaries and bonuses	1,106	1,236
Share based payment transaction	-	135
Profit sharing plan	-	147
Consulting fees	472	13
	1,578	**1,531**

Total remuneration and management consulting fees payables included in other liabilities as at December 31, 2019 and 2018 is as follows:

	December 31, 2019	December 31, 2018
Profit sharing plan	-	147
	-	**147**

Other related party transactions

	Other operating expenses 2019	Other operating expenses 2018	Other liabilities as of December 31, 2019	Other liabilities as of December 31, 2018
Other				
JSC Mobile Finance Services - Georgia*	740	109	309	-
	740	**109**	**309**	**-**

* 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.

Lease liability - The fair value of lease liability is based on estimated future cash outflows discounted at current interest rate. Discount rate depends on currency and maturity of the instruments. The fair value of lease liability approximates its cost.

The following table shows the carrying amount and fair value of financial assets and financial liabilities recognised in the consolidated financial statements.

	Fair value hierarchy	**December 31, 2019**		**December 31, 2018**	
		Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	Level 1	20,106	20,106	13,953	13,953
Loans to customers	Level 3	297,211	305,088	264,608	271,584
Other financial assets	Level 3	2,297	2,297	1,706	1,706
Borrowed funds	Level 3	253,983	252,453	230,917	231,292
Debt securities issued	Level 3	12,667	12,667	9,945	9,945
Lease liability	Level 3	3,914	3,914	-	-
Other financial liabilities	Level 3	1,603	1,603	1,271	1,271

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).

	Fair value as at					
Derivative financial instruments	**December 31, 2019**	**December 31, 2018**	**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	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	4,292	1,659	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.

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 1,000 thousand (2018: GEL 500 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 with 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, 2019 and December 31, 2018:

	2019	**2018**
Share capital	3,635	3,061
Share premium	22,110	12,718
Retained earnings	34,117	35,208
Eligible subordinated debt	5,748	-
Regulatory capital before reductions	**65,610**	**50,987**
Less intangible assets	(2,564)	(1,552)
Regulatory capital	**63,046**	**49,435**

	2019	**2018**
Total assets before reductions	337,095	295,047
Less intangible assets	(2,564)	(1,552)
Total assets after reductions	**334,531**	**293,495**

	December 31, 2019	**December 31, 2018**
Capital adequacy ratio	18.85%	16.84%

The Group also monitors its capital adequacy levels to comply with debt covenants, calculated in accordance with the lenders requirements. See Note 17 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, 2019 and 2018, 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 > 88 scores
B 82-88 scores
C </= 81 scores
C1 not applicable (agro cards and seasonal loans, to which rating is not applied)

Grades in case of arrears:
C3 1-30 days in arrears
D 31-60 days in arrears
D1 61-90 days in arrears
D2 91-120 days in arrears
D3 121-180 days in arrears
E > 180 days in arrears

Grades for restructured loans:
R1 current restructuring and restructuring for 1-90 days in arrears
R2 restructuring for >90 days in arrears

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, the loan goes back to the relevant grade (by grade of arrears).

If the existing C2 loan has not been in arrears for even 1 day over the last 6-month period, the loan will be returned to the grade granted at the time of disbursement.

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 most recently disbursed loan. For instance, if a client had one loan in grade A, disbursed in 2018 and s/he takes another loan in 2019 under grade B, both loans will be included in grade B, as this is the grade of the most recently disbursed loan. Both, upgrade and downgrade, are allowed.
- 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 most recently disbursed loan(except for 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 on an annual basis.

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 Management Division 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 in 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 the 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: their actions are suspicious, bring 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 their control
- Pawnshop default point is >30 days in arrears

The definition of default is in line with relevant regulations, taking into account the 90 days past due cap presumption of 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 the groups according to product types: Micro Business, SME, Agricultural, Housing, Consumer, Installment and Pawnshop loans. Vintage analysis and default rate analysis are performed to further ensure the homogeneity of identified segments. 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, 2019 for the years 2020 to 2022, for Georgia:

	2020	2021	2022
GDP Growth			
Base scenario	4.5	5.0	5.0
Upside scenario	5.5	6.0	5.0
Downside scenario	2.5	3.5	4.5
Inflation rate			
Base scenario	4.5	2.5	3.0
Upside scenario	4.5	3.5	3.0
Downside scenario	7.0	5.0	3.0
Monetary policy interest rate			
Base scenario	8.0	7.0	6.5
Upside scenario	8.0	6.5	6.0
Downside scenario	9.5	8.5	7.5
Nominal effective exchange rate			
Base scenario	265.0	265.0	265.0
Upside scenario	273.0	281.2	281.2
Downside scenario	249.1	241.7	248.9

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 and 5 years, for PD and LGD purposes, respectively. 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 would change if the key assumptions used to calculate ECL change by 10%. The table below outlines the total ECL per portfolio as at December 31, 2019, 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 10%. 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	27.335%	59.79%	(13,184)
+10%	27.336%	59.79%	(13,186)
-10%	27.333%	59.79%	(13,182)

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, 2019, 10% increase/(decrease) in average PD per each segment results in ECL increase/(decrease) by 4.5% that represents GEL 591/(591) thousand.

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.

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, 2019, 10% increase/(decrease) in average LGD per each segment results in ECL increase/(decrease) by 7.4% that represents GEL 980/(980) thousand.

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.

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, 2019:

	Gross loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allow-ance to gross loans%
Analysis by sector:							
Agriculture loans							
A	5,804	(84)	-	-	(84)	5,720	1%
B	20,245	(329)	-	-	(329)	19,916	2%
C	26,536	(449)	-	-	(449)	26,087	2%
C1	8,026	(109)	-	-	(109)	7,917	1%
C2	13,568	-	(396)	-	(396)	13,172	3%
C3	565	(131)	-	-	(131)	434	23%
D	693	-	(307)	-	(307)	386	44%
D1	633	-	(328)	-	(328)	305	52%
D2	619	-	-	(396)	(396)	223	64%
D3	322	-	-	(206)	(206)	116	64%
E	1,123	-	-	(821)	(821)	302	73%
R1	2,125	-	(464)	-	(464)	1,661	22%
R2	1,790	-	-	(953)	(953)	837	53%
Total agriculture loans	**82,049**	**(1,102)**	**(1,495)**	**(2,376)**	**(4,973)**	**77,076**	**6%**

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	Gross loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allow-ance to gross loans%
Service loans							
A	4,133	(38)	-	-	(38)	4,095	1%
B	15,615	(155)	-	-	(155)	15,460	1%
C	35,485	(374)	-	-	(374)	35,111	1%
C1	6,438	(88)	-	-	(88)	6,350	1%
C2	20,709	-	(887)	-	(887)	19,822	4%
C3	430	(72)	-	-	(72)	358	17%
D	144	-	(49)	-	(49)	95	34%
D1	73	-	(31)	-	(31)	42	42%
D2	502	-	-	(307)	(307)	195	61%
D3	379	-	-	(212)	(212)	167	56%
E	717	-	-	(547)	(547)	170	76%
R1	1,024	-	(170)	-	(170)	854	17%
R2	1,204	-	-	(548)	(548)	656	46%
Total service loans	**86,853**	**(727)**	**(1,137)**	**(1,614)**	**(3,478)**	**83,375**	**4%**
Consumer loans							
A	6,375	(61)	-	-	(61)	6,314	1%
B	12,025	(132)	-	-	(132)	11,893	1%
C	23,973	(273)	-	-	(273)	23,700	1%
C1	9,779	(131)	-	-	(131)	9,648	1%
C2	7,507	-	(226)	-	(226)	7,281	3%
C3	301	(65)	-	-	(65)	236	22%
D	150	-	(65)	-	)65)	85	43%
D1	93	-	(43)	-	(43)	50	46%
D2	311	-	-	(200)	(200)	111	64%
D3	155	-	-	(105)	(105)	50	68%
E	210	-	-	(161)	(161)	49	77%
R1	615	-	(92)	-	(92)	523	15%
R2	429	-	-	(220)	(220)	209	51%

	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%
Total consumer loans	**61,923**	**(662)**	**(426)**	**(686)**	**(1,774)**	**60,149**	**3%**
Trade loans							
A	2,064	(19)	-	-	(19)	2,045	1%
B	8,371	(81)	-	-	(81)	8,290	1%
C	18,424	(190)	-	-	(190)	18,234	1%
C1	3,147	(42)	-	-	(42)	3,105	1%
C2	11,694	-	(463)	-	(463)	11,231	4%
C3	375	(59)	-	-	(59)	316	16%
D	88	-	(30)	-	(30)	58	34%
D1	110	-	(50)	-	(50)	60	45%
D2	299	-	-	(180)	(180)	119	60%
D3	122	-	-	(72)	(72)	50	59%
E	525	-	-	(405)	(405)	120	77%
R1	738	-	(118)	-	(118)	620	16%
R2	1,158	-	-	(563)	(563)	595	49%
Total Trade loans	**47,115**	**(391)**	**(661)**	**(1,220)**	**(2,272)**	**44,843**	**5%**
Pawn shop loans							
P	22,189	-	(27)	-	(27)	22,162	0%
Total pawn shop loans	**22,189**	**-**	**(27)**	**-**	**(27)**	**22,162**	**0%**
Manufacturing loans							
A	407	(4)	-	-	(4)	403	1%
B	962	(10)	-	-	(10)	952	1%
C	4,566	(46)	-	-	(46)	4,520	1%

C1	746	(10)	-	-	(10)	736	1%
C2	2,273	-	(81)	-	(81)	2,192	4%
C3	135	(23)	-	-	(23)	112	17%
D	95	-	(31)	-	(31)	64	33%
D1	45	-	(20)	-	(20)	25	44%
D2	25	-	-	(16)	(16)	9	64%
D3	21	-	-	(13)	(13)	8	62%
E	190	-	-	(167)	(167)	23	88%
R1	382	-	(64)	-	(64)	318	17%
R2	508	-	-	(264)	(264)	244	52%
Total manufacturing loans	**10,355**	**(93)**	**(196)**	**(460)**	**(749)**	**9,606**	**7%**
Total loans to customers	**310,484**	**(2,975)**	**(3,942)**	**(6,356)**	**(13,273)**	**297,211**	**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	77,760	(989)	(812)	(1,031)	(2,832)	74,928	4%
1 to 30 days overdue	951	(113)	(25)	(225)	(363)	588	38%
31 to 60 days overdue	984	-	(315)	(172)	(487)	497	49%
61 to 90 days overdue	1,068	-	(342)	(151)	(493)	575	46%
91 to 180 days overdue	1,286	-	(1)	(797)	(798)	488	62%
Over 180 days overdue	-	-	-	-	-	-	0%
Total agriculture loans	**82,049**	**(1,102)**	**(1,495)**	**(2,376)**	**(4,973)**	**77,076**	**6%**

	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 %
Service loans							
Not overdue	84,712	(668)	(1,027)	(774)	(2,469)	82,243	3%
1 to 30 days overdue	716	(59)	(19)	(156)	(234)	482	33%
31 to 60 days overdue	220	-	(49)	(37)	(86)	134	39%
61 to 90 days overdue	231	-	(39)	(72)	(111)	120	48%
91 to 180 days overdue	974	-	(3)	(575)	(578)	396	59%
Over 180 days overdue	-	-	-	-	-	-	0%
Total service loans	**86,853**	**(727)**	**(1,137)**	**(1,614)**	**(3,478)**	**83,375**	**4%**
Consumer loans							
Not overdue	60,808	(610)	(307)	(357)	(1,247)	59,934	2%
1 to 30 days overdue	357	(52)	(10)	(34)	(96)	261	27%
31 to 60 days overdue	178	-	(61)	(14)	(75)	103	42%
61 to 90 days overdue	204	-	(42)	(36)	(78)	126	38%
91 to 180 days overdue	376	-	(6)	(245)	(251)	125	67%
Over 180 days overdue	-	-	-	-	-	-	0%
Total consumer loans	**61,923**	**(662)**	**(426)**	**(686)**	**(1,774)**	**60,149**	**3%**
Trade loans							
Not overdue	45,616	(333)	(564)	(742)	(1,639)	43,977	4%
1 to 30 days overdue	558	(58)	(21)	(27)	(106)	452	19%
31 to 60 days overdue	231	-	(33)	(77)	(110)	121	48%
61 to 90 days overdue	195	-	(41)	(70)	(111)	84	57%

	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	515	-	(2)	(304)	(306)	209	59%
Over 180 days overdue	-	-	-	-	-	-	0%
Total trade loans	**47,115**	**(391)**	**(661)**	**(1,220)**	**(2,272)**	**44,843**	**5%**
Pawn shop loans							
Not overdue	21,665	-	(27)	-	(27)	21,638	0%
1 to 30 days overdue	491	-	-	-	-	491	0%
31 to 60 days overdue	26	-	-	-	-	26	0%
61 to 90 days overdue	4	-	-	-	-	4	0%
91 to 180 days overdue	3	-	-	-	-	3	0%
Over 180 days overdue	-	-	-	-	-	-	0%
Total pawn shop loans	**22,189**	**-**	**(27)**	**-**	**(27)**	**22,162**	**0%**
Manufacturing loans							
Not overdue	9,887	(71)	(154)	(295)	(520)	9,367	5%
1 to 30 days overdue	147	(22)	(1)	(3)	(26)	121	18%
31 to 60 days overdue	123	-	(33)	(13)	(46)	77	37%
61 to 90 days overdue	19	-	(8)	-	(8)	11	42%
91 to 180 days overdue	179	-	-	(149)	(1490	30	83%
Over 180 days overdue	-	-	-	-	-	-	0%
Total manufacturing loans	**10,355**	**(93)**	**(196)**	**(460)**	**(749)**	**9,606**	**7%**
Total loans to customers	**310,484**	**(2,975)**	**(3,942)**	**(6,356)**	**(13,273)**	**297,211**	**4%**

The following table provides 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%**
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%**

	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%
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%**
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%**
Manufacturing 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%
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 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%**

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	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%**

	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 %
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)**	**13,003**	**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%**

During the years ended December 31, 2019 and 2018, 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, 2019	% of loan portfolio	December 31, 2018	% of loan portfolio
Loans with no collateral	169,341	57%	165,186	62%
Loans with collateral	127,870	43%	99,422	38%
Total	**297,211**	**100%**	**264,608**	**100%**

	December 31, 2019	December 31, 2019	December 31, 2019	December 31, 2019
Type of collateral	**Gross carrying amount**	**ECL**	**Carrying amount**	**Collateral Fair Value**
Real estate	109,233	(5,898)	103,335	299,454
Precious metals	21,488	(29)	21,459	39,160
Movable property	3,277	(151)	3,076	8,909
Non-collateralized	176,536	(7,195)	169,341	-
Total	**310,484**	**(13,273)**	**297,211**	**347,523**

	December 31, 2018	December 31, 2018	December 31, 2018	December 31, 2018
Type of collateral	**Gross carrying amount**	**ECL**	**Carrying amount**	**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**

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.

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, 2019 and 2018, 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 16.

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 is presented by the lower of interest rate receipt date or maturity date of financial instruments:

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
December 31, 2019							
ASSETS							
Cash and cash equivalents	2,451	-	-	-	-	17,655	20,106
Loans to customers	62,925	33,877	64,046	133,176	3,187	-	297,211
Other financial assets	-	-	-	-	-	2,297	2,297

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
	65,376	**33,877**	**64,046**	**133,176**	**3,187**	**19,952**	**319,614**
LIABILITIES							
Financial liability at fair value through profit or loss	-	-	-	-	-	4,292	4,292
Borrowed funds	253,759	-	-	-	-	224	253,983
Debt securities issued	260	-	-	12,407	-	-	12,667
Lease liability	241	250	513	2,839	71	-	3,914
Dividends payable	-	-	767	-	-	-	767
Other financial liabilities	-	-	-	-	-	1,603	1,603
	254,260	**250**	**1,280**	**15,246**	**71**	**6,119**	**277,226**
Interest sensitivity gap	**(188,884)**	**33,627**	**62,766**	**117,930**	**3,116**	**13,833**	
Cumulative interest sensitivity gap	**(188,884)**	**(155,257)**	**(92,491)**	**25,439**	**28,555**	**42,388**	

FINANCIAL STATEMENT

	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	-	-	-	-	-	442	442
Loans to customers	54,339	32,880	61,057	116,269	63	-	264,608
Other financial assets	-	-	-	-	-	1,705	1,705
	56,600	**32,880**	**61,057**	**116,269**	**63**	**13,839**	**280,708**
LIABILITIES							
Financial liability 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	-	-	-	-	-	1,271	1,271
	29,074	**16,164**	**37,753**	**155,476**	**2,395**	**2,930**	**243,792**
Interest sensitivity gap	**27,526**	**16,716**	**23,304**	**(39,207)**	**(2,332)**	**10,909**	
Cumulative interest sensitivity gap	**27,526**	**44,242**	**67,546**	**28,339**	**26,007**	**36,916**	

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2019 and 2018. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2019			2018		
	Average effective interest rate, %			Average effective interest rate, %		
	GEL	USD	EUR	GEL	USD	EUR
Interest bearing assets						
Cash and cash equivalents	5.93%	1.00%	-	6.22%	0.67%	-
Loans to customers	32.85%	22.68%	-	39.99%	25.01%	-
Interest bearing liabilities						
Borrowed funds	12.12%	6.42%	-	12.00%	7.24%	5.27%
Debt securities issued	13.05%	-	-	12.07%	-	-

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 31 December 2019 and 2018, is as follows:

	2019	2018
100 bp parallel fall	(307)	(341)
100 bp parallel rise	307	341

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.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at December 31, 2019:

	EUR	USD	Total
ASSETS			
Cash and cash equivalents	2,024	5,953	7,977
Loans to customers	-	3,772	3,772
Other financial assets	4	121	125
Total assets	**2,028**	**9,846**	**11,874**
LIABILITIES			
Borrowed funds	-	118,435	118,435
Lease liability	-	3,914	3,914
Other financial liabilities	3	5	8
Total liabilities	**3**	**122,354**	**122,357**
Net position	**2,025**	**(112,508)**	**(110,483)**
The effect of derivatives held for risk management	**-**	**113,676**	**113,676**
Net position after derivatives held for risk management purposes	**2,025**	**1,168**	**3,193**

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**

	EUR	USD	Total
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 significant exchange rates were applied during the year:

in GEL	**Average rate**		**Reporting date spot rate**	
	2019	**2018**	**2019**	**2018**
USD 1	2.8192	2.5345	2.8677	2.6766
EUR 1	3.1553	2.9913	3.2095	3.0701

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2019 and 2018, 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.

	2019	**2018**
20% appreciation of USD against GEL	199	(527)
20% appreciation of EUR against GEL	344	260

A strengthening of the GEL against the above currencies at December 31, 2019 and 2018 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 liabilities as at December 31, 2019 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
Financial liabilities							
Financial liabilities at fair value through profit or loss	13	-	-	4,279	-	4,292	4,292
Borrowed funds	253,759	-	-	224	-	253,983	253,983
Debt securities issued	473	-	462	95	12,454	13,484	12,667
Lease liability	105	210	315	630	3,245	4,505	3,914
Dividends payable	-	-	-	767	-	767	767
Other financial liabilities	782	814	-	-	7	1,603	1,603
Total financial liabilities	**255,132**	**1,024**	**777**	**5,995**	**15,706**	**278,634**	**277,226**

The maturity analysis for financial 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
Financial liabilities							
Financial liabilities at fair value through profit or loss	-	-	-	1,659	-	1,659	1,659
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**	**586**	**-**	**21**	**1,271**	**1,271**
Total financial liabilities	**15,695**	**15,876**	**21,914**	**47,831**	**178,088**	**279,404**	**243,792**

Geographical risk

As at December 31, 2019 and 2018 the Group's all financial assets are located in Georgia and its business plans are critically dependent on the stability and rule of law in the country. Georgia continues to display certain characteristics of an emerging market. As such, the Group is exposed to any deterioration of the business or legal environment within the country.

As at December 31, 2019 Group has borrowed funds of GEL 200,674 thousand, GEL 8,697 thousand, GEL 7,144 thousand and GEL 37,468 thousand received from counterparties registered in Europe, USA, Asia and Georgia, respectively. As at December 31, 2018 the Group has borrowed funds of GEL 174,856 thousand, GEL 16,216 thousand, GEL 6,628 thousand and GEL 33,217 thousand received from counterparties registered in Europe, USA, Asia and Georgia, respectively.

The table below shows an analysis, by expected maturities, of amounts recognized in the consolidated statement of financial position as at December 31, 2019:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 2 months	From 1 to 5 years	More than 5 years	Overdue	Total
ASSETS							
Cash and cash equivalents	20,106	-	-	-	-	-	20,106
Loans to customers	25,448	31,954	97,923	133,176	3,187	5,523	297,211
Other financial assets	1,547	36	-	714	-	-	2,297
Total assets	**47,101**	**31,990**	**97,923**	**133,890**	**3,187**	**5,523**	**319,614**

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LIABILITIES							
Financial liabilities at fair value through profit or loss	13	-	4,279	-	-	-	4,292
Borrowed funds	253,759	-	224	-	-	-	253,983
Debt securities issued	260	-	-	12,407	-	-	12,667
Lease liability	80	161	763	2,839	71	-	3,914
Dividend payable	-	-	767	-	-	-	767
Other financial liabilities	782	814	-	7	-	-	1,603
Total liabilities	**254,894**	**975**	**6,033**	**15,253**	**71**	**-**	**277,226**
Net position	**(207,793)**	**31,015**	**91,890**	**118,637**	**3,116**	**5,523**	**42,388**

The table below shows an analysis, by expected maturities, of amounts recognised 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 months**	**From 1 to5 years**	**More than 5 years**	**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
Other financial assets	1,156	108	5	436	-	-	1,705
Total assets	**26,012**	**36,198**	**94,347**	**116,705**	**63**	**7,383**	**280,708**
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 financial liabilities	400	264	586	21	-	-	1,271
Total liabilities	**15,126**	**14,612**	**56,162**	**155,497**	**2,395**	**-**	**243,792**
Net position	**10,886**	**21,586**	**38,185**	**(38,792)**	**(2,332)**	**7,383**	**36,916**

26. SUBSEQUENT EVENTS

COVID-19 pandemic affected the profitability and funding structure of the Group and resulted in breach of related financial covenants. The negotiations regarding obtaining waiver letters and/or amending the requirements of the investors are in progress. The management of the Group believes that the breach of covenants does not trigger any events of default or cross default, and that based on current forecasts and measures, it has enough funds to continue its activities.

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and known now as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak, which have impacted global business operations. As of the date of issuance of these consolidated financial statements, the Group's operations have not been significantly affected; however, the Group continues to monitor the situation and has taken certain preventive measures to safeguard its capital position.

The Group has received the following funding subsequent to the reporting period:

- In January 2020, the Group signed loan agreement with BlueOrchard Microfinance Fund amounting to USD 2,000 thousand with the tenor of 3 years, at fixed interest rate;
- In February 2020, the Group signed loan agreement with JSC Pasha Bank Georgia amounting to GEL 4,000 thousand with the tenor of 2 years, at floating interest rate;
- In February 2020, the Group credit line agreement with JSC TBC Bank amounting to GEL 10,000 thousand with the tenor of 10 months, at floating interest rate;
- In February 2020, the Group signed loan agreement with Blueorchard Microfinance Fund amounting to USD 3,000 thousand with the tenor of 4 years, at fixed interest rate;
- In February 2020, the Group signed loan agreement with EFSE S.A SICAV-SIF amounting to USD 5,000 thousand with the tenor of 3 years, at floating interest rate;
- In February 2020, the Group signed loan agreement with INCOFIN C.V.S.O amounting to USD 8,000 thousand with the tenor of 3 three years, at fixed interest rate;
- In February 2020, the Group signed loan agreement with Symbiotics - SEB Microfinance Fund amounting to USD 3,000 thousand with the tenor of 3 years, at floating interest rate.
- In March 2020, the Group signed loan agreement with MICROVEST EDF MASTER FUND LTD amounting to USD 8,000 thousand with the tenor of 3 years, at fixed interest rate;
- In March, 2020, the Group signed loan agreement with Blueorchard Microfinance Fund amounting to USD 5,000 thousand with the tenor of 2.5 years, at fixed interest rate.

In April 2020 Melania Kuchukhidze joined the Board of Directors as a new Chief Business Officer (CBO), replacing Kakha Gabeskiria on this position. She previously performed her duties as a deputy CBO. Kakha Gabeskiria will run and promote the development of the Group's new line of activity – leasing.

In May 2020 Sergo Nozadze left the position of the Chief People and Organizational Development Officer (CPODO). The CEO will be the Chief Officer for this directorate as well.

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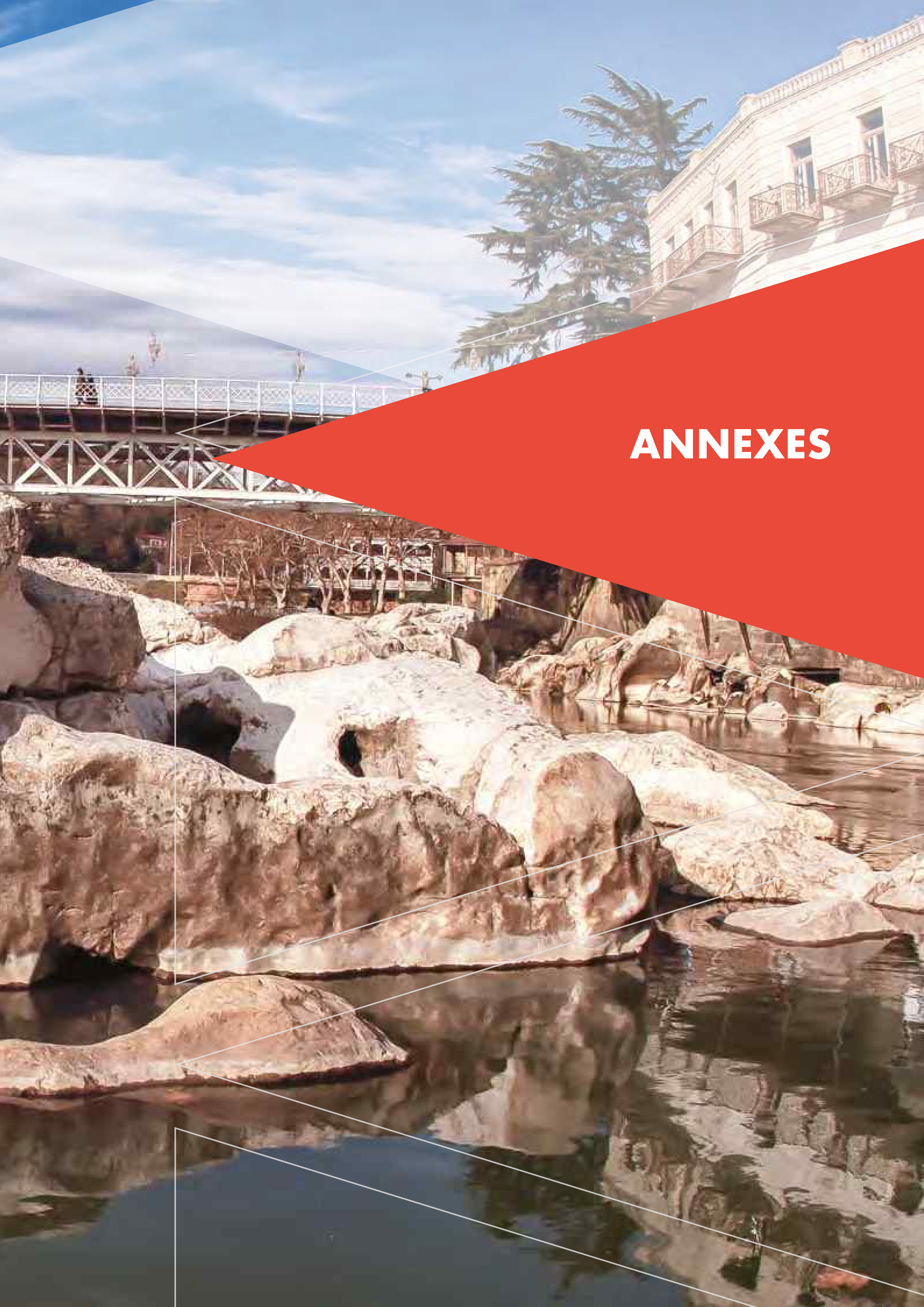

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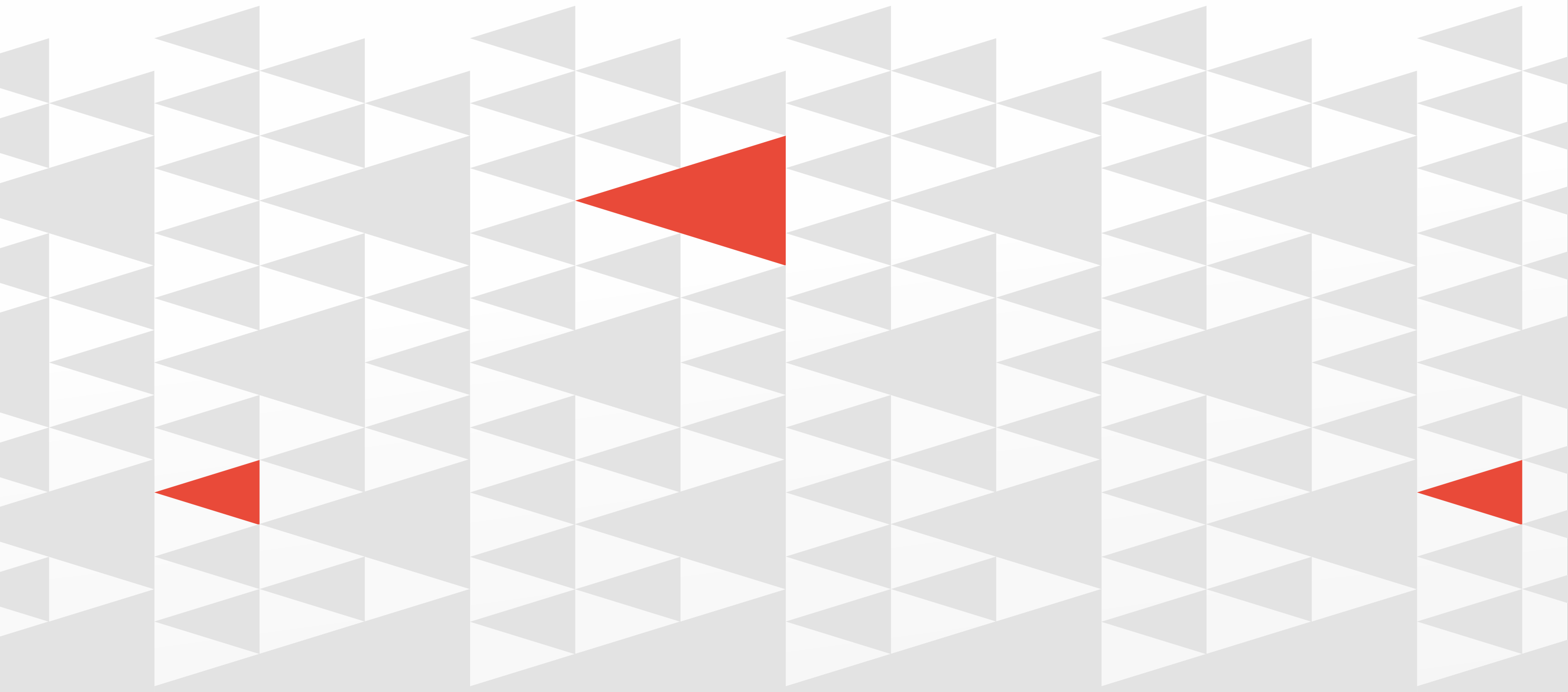
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ANNEX 1
COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE AS OF 2019

Principles	Status	Notes
1. Board Leadership and Company Purpose	**4.6**	
A: Effective board	Fully	
B: Company purpose and culture	Fully	
C: Resources and controls	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.

The Full 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 as well as 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 externally facilitated evaluation is in place. Thus, its criteria are partly fulfilled.

ANNEX 2

Executive Summary

The present assessment offers both quantitative and qualitative data to inform of Crystal's social impact contribution to the business segment – i.e. clients of micro-business loans, agro-loans, tourism loans and small business loans – based on a representative sample of survey and focus group participants. The results are structured around a key list of results from both the business and household level.

In order to assess the different degrees of contribution to social impact, the aggregate results of the six indicators for business and the six indicators for household were placed on the following scale:[1]

0	Null Contribution
1-2	Small Contribution
3-4	Moderate Contribution
5-6	High/Significant Contribution

At the business level – for micro, small and rural businesses run/owned by clients – the measurement indicators within the short list are:

1. Increase of net income (by at least 5%);
2. Capital investment in assets;
3. The introduction of new products/or services, or improvements to the existing options;
4. The expansion of personnel;
5. The development of new markets or sales channels (new locations, sales channels or customer segments);
6. The improved use of technology for sales.

At the household level, the indicators included in the short list are:

1. Investments in movable assets or household appliances;
2. Savings capacity – formal and informal;
3. The ability to cope with utility bills and other regular payments;
4. Access to schooling for members of a household (minors or adults);
5. Access to healthcare;
6. Overall satisfaction with economic wellbeing.

Portfolio Overview

Prior to analysing the intended indicators, we performed an appraisal of the gross loan portfolio through a gender lens. With regard to the **client base**, on average, **women amount to 55% of clientele** and men 45%. Male customers have been declining, while female clients have tended to be augmented.

In terms of **retention rates, i.e. the average years as a client**, both men and women have remained clients for around 2½-3 years.

When evaluating the **credit portfolio**, although the **number of loans** decreased for men, it increased for women (if less steeply than in 2018). In terms of the **volume of loans**, a similar pattern can be recognised, however, the changes are less pronounced between 2018 and the first half of 2019.

In terms of the **distribution of the number of loans by gender** (see the graph below), men and women are both represented fairly similarly across all loan categories, but women do take more retail pawnshop and fast instalment loans. This could be indicative of a tendency for women to acquire quick loans for all forms of personal, small trade or retail purposes. Such fast instalment loans are intended for the acquisition of specific products or services, for instance an appliance, payment for health treatment, etc. Contrarily, men are largely concentrated in credit lines, and small and social project loans, which could imply they are, on the whole, more business-oriented in the pursuit of loans.

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1 The scale was drafted according to the best practices in value scaling, such as those detailed here: https://www.extension.iastate.edu/documents/anr/likertscaleexamplesforsurveys.pdf

GLP: Number of Loans by Gender (%), Dec. 2018

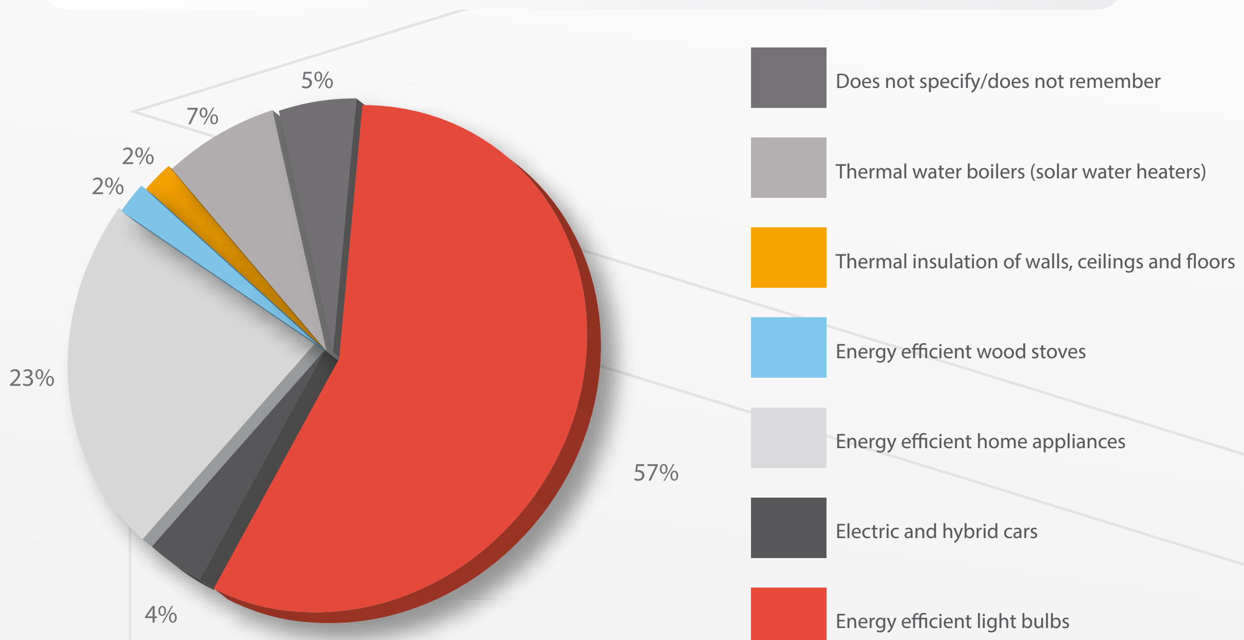
Considering the **volume of shares for each product by gender** (see Graph 5 below), men and women are almost at a par in housing loans. However, for men, higher volumes can be found in credit lines, start-up loans, agricultural loans, small (business) loans, express micro loans, social project loans, while less so for tourist loans and mortgages. The volume share for women, conversely, is greater for both pawnshop wholesale and retail loans, and fast instalment loans, while less prominent for insider, consumer and seasonal loans.

As a general observation, the business portfolio seems to be overwhelmingly male-focused, given the gross overrepresentation of men applying for loans of an explicitly business nature, whilst non-business loan volumes are higher for women. This division of the loan portfolio might reflect self-selection on the part of the clientele (demand-side), and embedded biases with respect to how men and women are viewed as business and economic agents.

Studying loan repayment performance, by loan type and gender, one can see that men exhibit higher levels of PAR30 than women (2.46% versus 1.46%, men and women respectively). **Men perform worse than women in every type of loan, and particularly poorly on small loans, seasonal loans and agro loans**. As an exception, **women exhibit worse repayment behaviour** only in respect to **credit line loans**.

Finally, stemming from Crystal's data as of December 2018, if one observes the below PAR30 percentages, aggregated by interest rates, loan amount, and by maturity, within a sub-set of the four main business loan categories, there is unquestionable, empirical evidence that men are worse performers than women. The differences, though are not too broad, except for in small loans, where male repayment behaviour is far weaker.

In the quantitative research, we included an analytical dimension to test the extent that Crystal's loan recipients have acquired green energy products. Given the general lack of awareness of vital resource preservation and of green energy products in Georgia, only around 13% of respondents claimed to have acquired at least one of the options offered by Crystal. The distribution of such green products appears as follows (Graph 12 below):

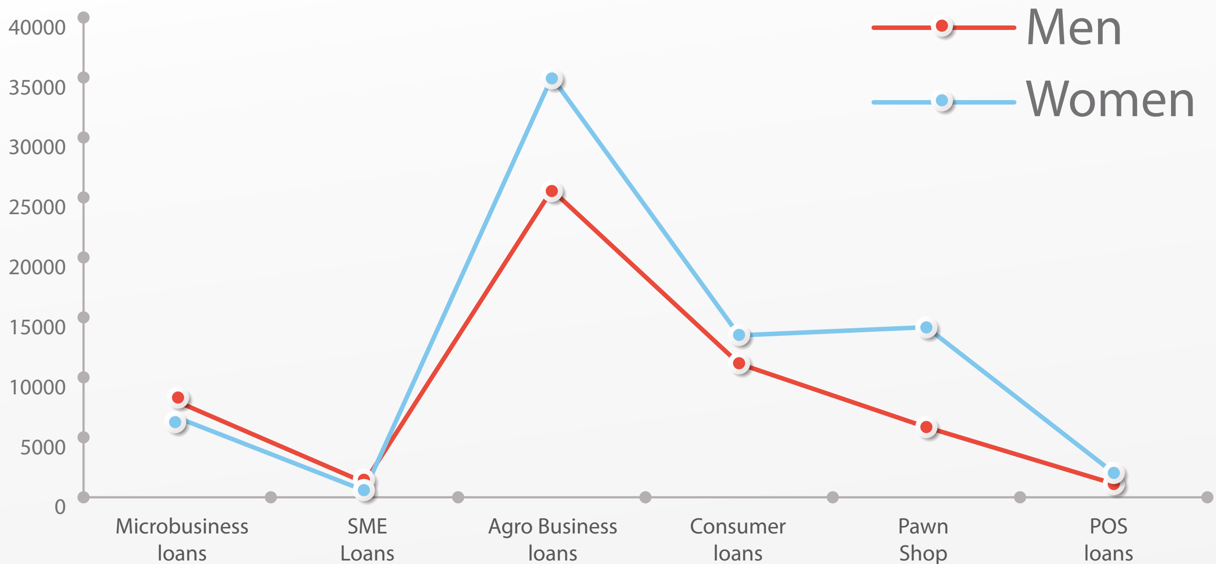


Thereafter, we examined the **overall gender outcomes from a sample of loan options, for which we coursed a request of aggregated data as the starting point for the 2019 quantitative and qualitative assessment of contributions to social impact**. This sample included express micro-loans, small loans (or SME loans), agro-loans, consumer loans, pawn shop loans and POS loans.

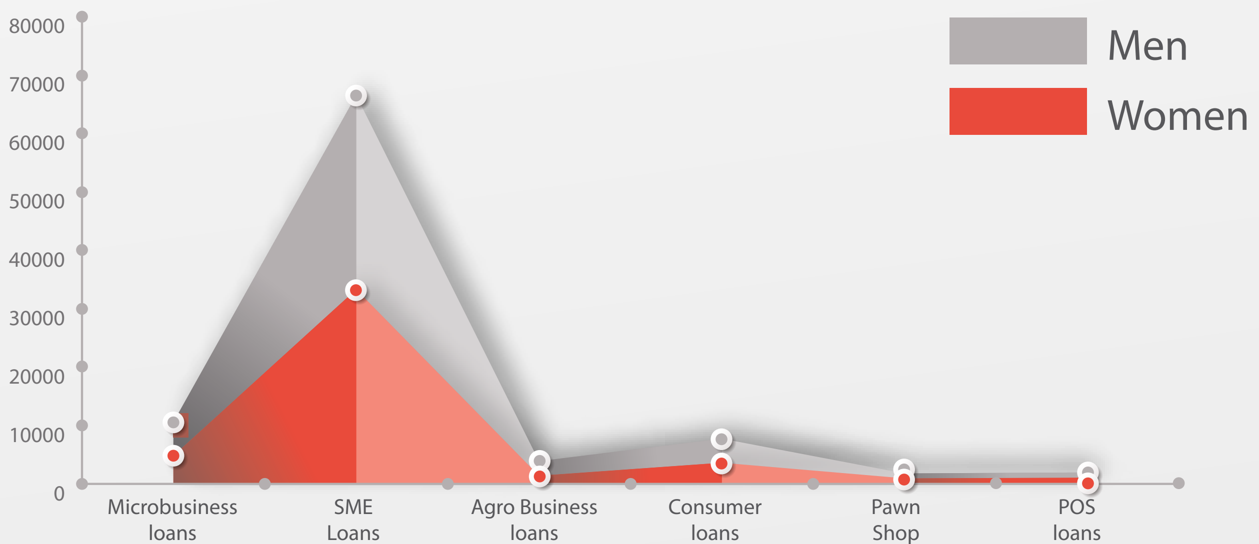
The aggregated gross loan portfolio for the sample, detailed above, highlights that **men are overrepresented in agro, SME and microbusiness loans, while women are on a par with men in access to consumer and POS loans**. **However, women outweigh men in the number of pawn shop loans taken**.

While the **number of loans** is greater for women, **loan amounts** are larger for men.

GLP: # Loans by Gender, July 2019

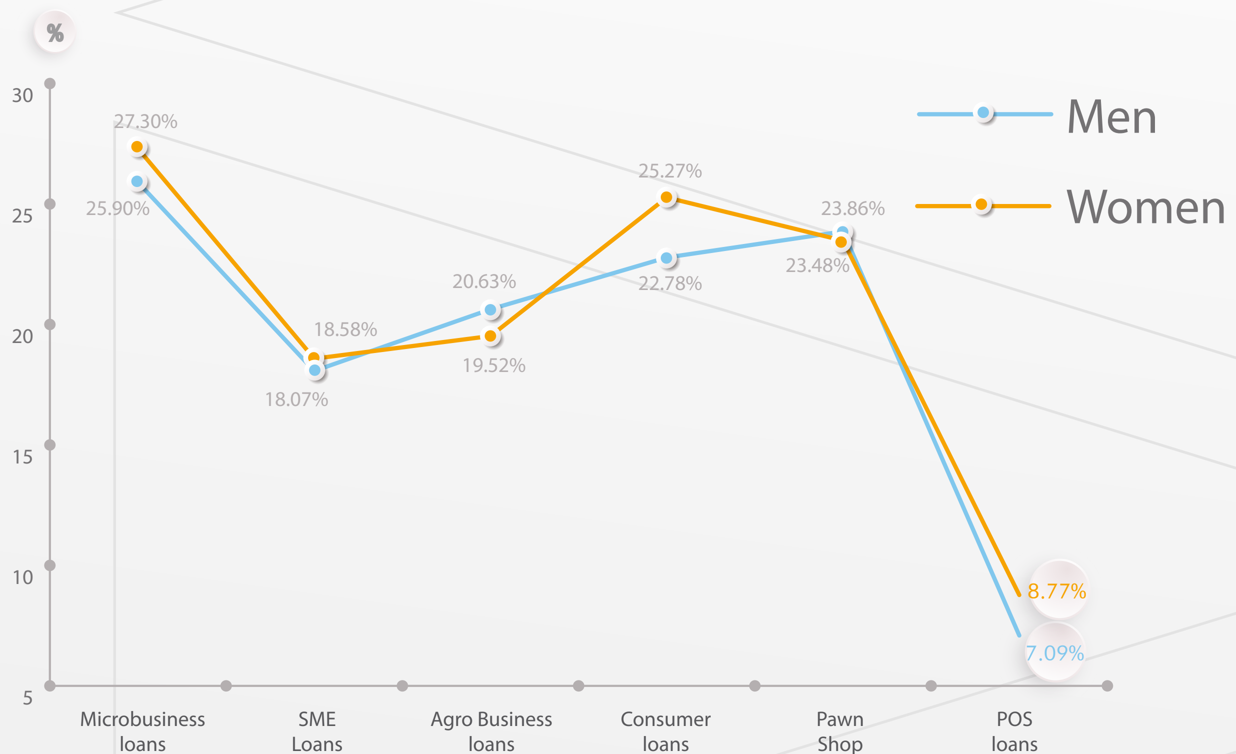


GLP: Average Size of Loans by Gender (GEL), July 2019

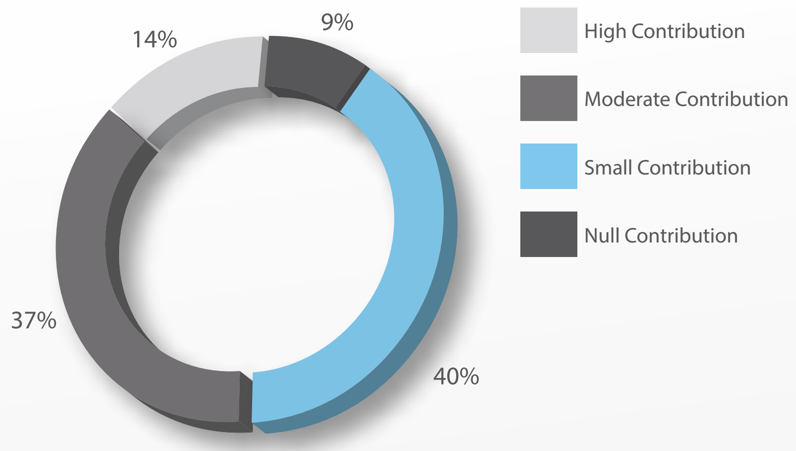


Examining the differences in **interest rates and non-performing loans between men and women for the considered sample** (Graphs 17 and 18 below), it is possible to observe that women are better performers, namely in consumer loans and other categories.

GLP: Average Interest Rate by Type of Loan and Gender

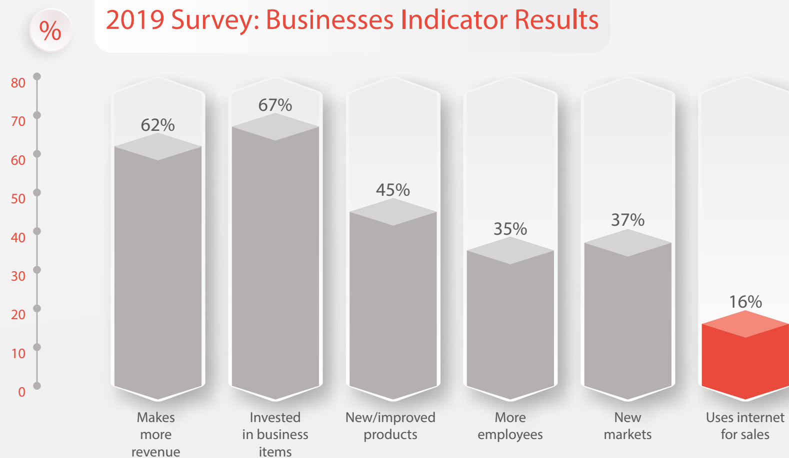


Quantitative Research: Survey Results

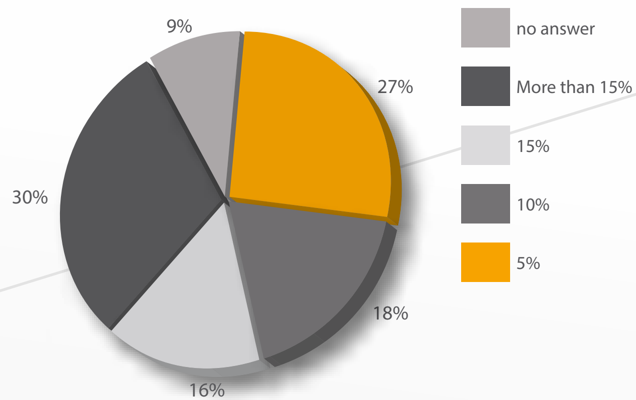


Firstly, when considering the business level, the results of the scale reveal a fairly positive picture: with business clients experiencing a moderate and high contribution to positive social impact in the categories sampled during the survey. This suggests that these loan recipients have, self-reportedly, experienced positive results in at least 3-4, and up to 5-6, of the dimensions reviewed. Furthermore, at least 40% reported a small contribution (1-2 indicators) to the generally constructive results.

Although this scale does not attribute specific weights to any one of the indicators tested, it does reveal a general trend showing the positive contributions to social impact at the business level. Moreover, the graph below provides further detail as to the frequency of positive results, as seen across each indicator. A large percentage of clients (67%) were able to make business investments – i.e. for equipment, immovable assets, and vehicles, among other items – many reported earning additional revenue from their business operations (62%), and with the improvement or addition of products or services (45). Moreover, 37% sought new sales markets, 35% hired further staff, and a lower number (16%) made use of digital means (mainly the internet) for conducting operations.



Specifically relating to revenue, 45 percent of surveyed clients experienced, self-reportedly, an increase in revenue of up to 10%, and, encouragingly, 30% of the sample expanded their revenue by as much as 15% (see the graph below):



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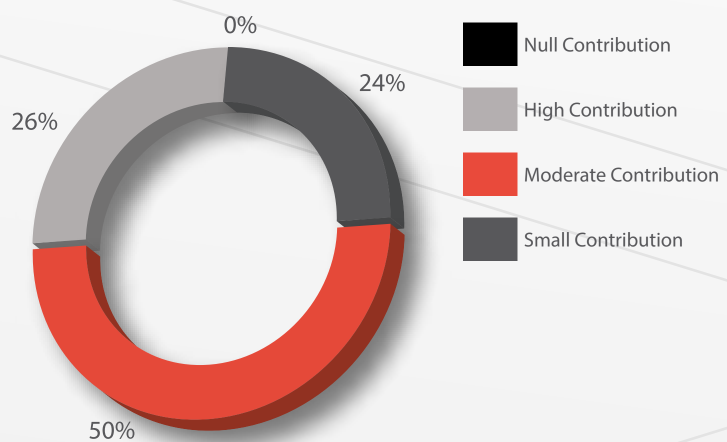
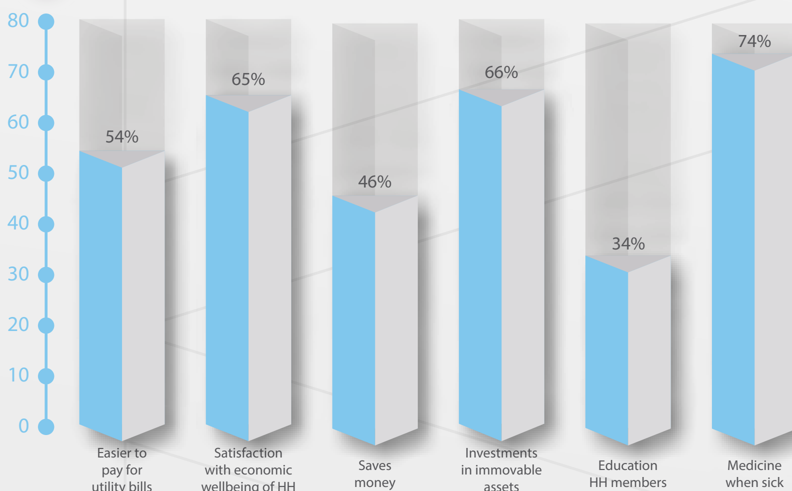


Examining each of the household indicators in detail, it appears that purchasing medicine for the sick and investing in immovable assets are the facets with notable improvement. Whilst, additional education funding for a household was the most difficult aspect, roughly half of the clients were able to pay utility bills, to make household improvements and to save.



ANNEXES

QUALITATIVE RESEARCH: A QUANTITATIVE ASSESSMENT OF THE SAMPLE

Subsequently, **participants were purposefully selected for the qualitative research** (focus groups), those **representative of Crystal business clients across Georgia**. The regions with the greatest business micro-lending operations were expressly selected – i.e. Batumi, Rustavi, Telavi, Martvili, Akhaltsikhe and Kutaisi – and the sampled regional branches were assessed in terms of client outreach (i.e. number of female and male clients in each region), the number of loans, and qualitatively the total amounts for all loan types – i.e. micro-business loans, small loans, tourism loans and agro-loans, each broken down by gender.

Excluding Martvili, where the total number of female clients, and loans, outnumber male customers, **in all other locations men access Crystal's credit services to a greater degree than women – i.e. with a larger number and volume of loans**. Nevertheless, even in places where women outweigh men in the numbers of loans, men take a higher proportion of the loan volume.

When regarding the same **indicators for the whole portfolio in each branch** – i.e. not only the sample of clients in the assessed loan types, rather appraising all loans from these locations – **although loan amounts are still larger for men, the greater overall number of clients with loans are women**. This may indicate, considering the whole portfolio, that women request a greater number of consumer and non-business loans. In addition, on the whole, while the average number of loans is remarkably similar between women and men, women attain 49% of the

loan amounts compared to men.

Qualitative Research: The Results

Concerning the core results of the qualitative research, the assessment of **the contribution towards social impacts was concentrated largely on the key list of indicators (detailed above) for clients within micro, small and rural business**. The table below offers an overview of the results for each survey indicator, and the occurrence as reported during the focus groups:

Table 3: Comparison of Results – Survey and Focus Groups, Business Level

Indicator	Quantitative Result (Survey)	Yes or No in Qualitative Research? To what extent?
Increase of net income/ revenue (by at least 5%)	62%	Yes; about 66%
Capital investment in assets	67%	Yes; about 70%
Introduction of new products/or services or improvement of the existing options	45%	Yes; about 32%
Expansion of personnel	35%	Yes; about 30%
Development of new markets or sales channels (new location, sales channel or customer segment)	37%	Yes; about 15%
Improved use of technology for sales	16%	Yes; about 11%

Our **qualitative research reconfirms** that **a considerable number of participants were able to invest in their businesses and increase their revenues**. The results for product diversification, the expansion of business employees, the search for new markets, and the use of digital technologies for business purposes though seem to report at lower frequencies. This may be explained by recognising the relatively low overall level of growth-oriented businesses within Crystal's loan book. It is estimated, based on the present research and analysis, that **around one third of business clients may be defined as growth-oriented**, while two thirds are survivalist businesses that do not have, at present, the ground – i.e. infrastructure, human capital, financial conditions – for expanding.

The difficulties in doing business were also highlighted during the focus groups, among which the following were the most frequently cited factors impeding business:

- Deterioration of the country's general economic conditions and the purchasing power of the population;
- Inflation;
- Changes in external political conditions and the unsteadiness of the Russian market;
- A lack of state support for small businesses, e.g. for tourism loans, wine export, agro production: newly tightened regulations in the sector and resultant increases in loan prices;
- Competition between similar or bigger businesses;
- A lack of business acumen, cost management, and risk analysis skills;
- Market vulnerability to falsification;
- Misjudgement of business costs and pricing methodologies: high cost of production to low price on import; low selling price on produced goods to low-income service;
- Deterioration of household economic conditions due to additional factors (failure of new business activity, failed investment, FX rate fluctuations – for three respondents);
- Over-indebtedness;
- The lack of adequate labour force: labour force migration to urban centres;
- External shocks like pests and plant diseases (e.g. Parosana);
- Double burdens on women (household/children/sick relatives, alongside business responsibilities);
- The health problems of a respondent or family member, impeding smooth business function.

Focusing on the qualitative research at the household level, the following table (4) again summarises the main indicators tested, the results at the survey level and the testimonies collected during the focus groups:

Table 4: Comparison of Results – Survey and Focus Groups, Household Level

Indicator	Quantitative Result (Survey)	Yes or No in Qualitative Research? To what extent?
Investments in movable assets or household appliances	67%	Yes; about 45%
Savings capacity – formal and informal	46%	Yes; about 21%
Ability to cope with utility bills and other regular payments	54%	Yes; about 21%
Access to schooling for members of the household (minors or adults)	34%	Yes; about 17%
Access to healthcare	74%	Yes; about 11%
Overall satisfaction with economic wellbeing	65%	Yes; about 53%

According to the focus group testimonies, the overall picture at the household level is not as hopeful as at the business level. Seemingly, just fewer than half the participants were able to invest in home improvements, a little over half were satisfied by the condition of their homes, and very few asserted the proven capacity to save, to cope with regular utility payments or to further educate their household.

The report is structured into the following analytical sections:

1. A full overview of the methodology applied for the completion and analysis of this assessment;

2. Outcomes of the general loan portfolio stemming from Crystal´s aggregated databases;

3. An overview of the aggregated statistics for the six specific loan types included in the assessment: express micro-loans, small loans (hereby also named "SME loans"), agro-loans, consumer loans, pawn shop loans and POS loans;

4. An analysis of the quantitative survey results, which comprises:
   - Business Survey Profiles by Gender;
   - An appraisal of Crystal´s contributions to (positive) social impacts;

5. An outlook of the focus group qualitative findings, which includes:
   - An introductory sub-section focused on a gender analysis of the sampled product types for the regions and branches where the qualitative assessment was conducted;
   - Identification of the qualitative insights;

6. Final conclusions and recommendations.

Section 6: Conclusions and Recommendations

Access to finance for microeconomic actors – i.e. small and micro businesses, households and individuals – lies at the core of sustained growth. The ability of households to save, of farmers to secure working capital for seed and fertiliser and of individuals to borrow for education or to purchase a home, is a major driver of microeconomic activity, paramount for improving livelihoods, and an unquestionable source of financial security.

This assessment of Crystal's contribution to social impact at the business level attests the long held view that when (micro) credit is invested in businesses, clients are likely to increase their working capital or assets, which can potentially lead to increased profits.[2]

Although the combined research and analysis deployed in this assessment makes it problematic, or impossible, to isolate biases (selection, placement), and the attribution of causality is highly questionable, it effectively offers a series of key insights related to Crystal's contributions to positive social impacts, both at the quantitative and qualitative levels.

Monitoring the profiles of Crystal's clients, from the gross loan portfolio data, around 58% of customers are "business clients", as per the four assessed types: agro-loans (20%), SME loans (15%), express micro-loans (18%) and tourism loans (4%).

Considering the qualitative outcomes, on the whole, at least one third of clients are growth-oriented micro-entrepreneurs, with a significant number successfully expanding their enterprises. It also emerged during the focus groups that a considerable amount of business clients have start-ups or are business owners diversifying their operations, whereby expanding into new business lines. It became clear too that women with a poorer education or at an older age are within the most vulnerable client sub-segments.

During the focus groups, successful entrepreneurs voiced satisfaction with their businesses and were confident of regular, planned business expansion. Many participants stated that they were able to acquire equipment, vehicles or land and properties for business purposes, even though most micro-lending recipients in Georgia, and other similar economies, do not draw distinct lines between business and personal investments. Although, both forms of investments, on a regular basis, act as catalysers for one another.

Utilising loans, some clients also replenished their business working capital or repaid

2 Banerjee, A., Duflo, E., Glennerster, R., and Kinnan, C. (2009). The Miracle of Microfinance? Evidence from a Randomized Evaluation. Mass.: J-PAL and MIT.

unfavourable loans, acquired previously from other financial institutions. Remarkably, the majority of clientele signalled that, thanks to business investments, they have been able to improve their productivity levels. It also appears many of Crystal's clients have been able to improve their living standards by upgrading their homes, and investing in household appliances or cars.

Whilst in terms of savings, such actions are mainly informal and performed by women; one typical strategy is to save items of gold.

Regarding Crystal's standing in the MFI market, once more, the clientele confirmed our highly positive image; most clients who participated in the qualitative research asserted that they came to Crystal through personal knowledge or via word-of-mouth. Crystal moreover acts as an additional loan provider for larger, government-subsidised farmers in need of unplanned financing. In certain cases, the Company even acts as on behalf of government-sponsored small business programmes, although there is little awareness – if great interest – in such representation.

Interestingly, the need for creating incentives for loyal clients was also voiced during the focus group sessions; such as, reducing interest rates for exemplary repayment behaviour, or no longer requiring partners to co-sign if their independent financial and business behaviour exhibits positive results.

Similarly, further ways to improve service were also suggested, such as arranging idea fairs where entrepreneurs can share their experiences – specifically relating to their industries or activities, or general fairs pertaining to business management, pricing, sales methods, advertising and digital marketing, effectively using technology for business, etc. Such fairs could become one core non-financial or business development service offered to clients. Special emphasis should be placed on the services most appropriate for each loan type segment, and also across genders. For example, finding talented personnel can curtail business operations for both men and women, however there is a higher operational risk for women, who often, and on a much greater scale than men, manage businesses alongside family affairs. Businesswomen would, therefore, need more support in this area than their male counterparts.

Revisiting the gender gap related in Section 5, there is currently poor access to business development assets for women, such as agro clubs or business associations, trade networks, alongside overall support for general business skills – i.e. business management, planning and upgrading human resources, business technology or financial management – and industry-specific know-how. Acknowledging these issues calls for Crystal to tailor an approach specifically for female business clients. To reach more businesswomen, this requires the expansion of the mentoring program and offering additional services, such as trade and business fairs with a specific focus on women's businesses. This could entail inviting successful women in business and entrepreneurs to host such events and help enable market linkages for women.

Moving focus to a summary of the quantitative outcomes, it is clear, to a significant degree, that the results reported paint a positive picture both at the business and the household level. Loan recipients, self-reportedly, experienced positive results in at least 3-4 and up to 5-6 dimensions of the business focused analysis. From a large section of clients (67%) were able to make business investments – i.e. in equipment, immovable assets and vehicles, among other items – 62% reported making additional revenue through their business operations, and 45% improved or added further products or services. Moreover, 37% sought new sales markets and 35% hired more staff, while fewer (16%) made use of digital means (mainly the internet) for conducting business operations. The results at the household level provide evidence for moderate and high contributions to positive social impacts. Therefore, according to the clients surveyed, between 3-4 and up to 5-6 of the dimensions tested maintained positive outcomes.

ANNEX 3
YES GEORGIA – IN NUMBERS (2019)

Crystal's Youth Entrepreneurship School YES-Georgia in numbers – the key outcomes:

- Supported more than 3,000 young entrepreneurs and professionals, roughly 60% of whom are women;
- Provided professional skills training to almost 1,000 young people;
- Mobilized $230 thousand from private and public funds to support youth-owned microenterprises and startups;
- Assisted over 200 young people in drafting business proposals and applying for financing;
- Launched the Youth Micro Equity mechanism, which has already provided financing to 55 youth-owned pilot enterprises;
- Offered a special program to promote entrepreneurship in schools, benefitting more than 500 schoolchildren, with a female majority; supported on-the-job training and internship programs in 90 different companies and organizations;
- As a result, more than 200 youth participants have gone on to obtain permanent employment.

The Program was conducted in cooperation with PH International Georgia, Junior Achievement Georgia, and with the financial support of USAID Georgia.

The goal of the ongoing YES-Georgia program (II Phase) is to increase opportunities for the self- or waged employment of Georgia's youth, aged 14-28, through enabling youth-led enterprises, the innovative delivery of relevant skills, and creating new discourses that contribute to their economic empowerment. Supporting youth and female entrepreneurship in Georgia is an extension of a previous USAID program – Youth Entrepreneurial Skills for Advancing Employability and Income Generation in Georgia. Since 2016, YES-Georgia has supported more than 3,000 young entrepreneurs and professionals, the majority of whom are women. In 2019, a new component to Women's Economic Empowerment – Buzz Georgia – has been added to the YES-Georgia program. Buzz Georgia is a franchise of the international Buzz Women. The main objective of the campaign is to increase the number of female entrepreneurs, by reaching over 2,500 women in Georgia, helping them develop entrepreneurship and capacity building through innovative forms of access to finance, knowledge and expertise. In addition, the program will help increase the availability of business services for women, those which will propel their businesses into prominent revenue-generating enterprises.

Over the next four years, YES-Georgia will support youth and female entrepreneurs with a $840,000 investment from USAID and the White House-led Women's Global Development and Prosperity (W-GDP) Initiative. By the beginning of 2024, YES-Georgia will have provided over 2,500 women with business management training, with access to legal and accounting services, and with mentoring and networking opportunities. The program will ultimately support entrepreneurs expanding their businesses and contribute to wider growth in the Georgian economy.

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