crystal

Financial Inclusion Organization

INTEGRATED REPORT

2020

ABOUT US

JSC MFO Crystal ('Crystal') is a leading financial inclusion organisation and, by assets, the largest non-banking financial institution within Georgia. It manages a loan portfolio of GEL 316 million, employing around 1,000 members of staff, operating via 50 branches and serving more than 112,900 unique customers across the country. 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. The company received an A-Grade social rating from MicroFinanza, the Global Rating Agency, in 2020. Crystal is also a recipient of the annual UN Global Compact Corporate Social Responsibility Awards in 2019 and 2020 under the following categories: Gender Equality and Sustainable Consumption and Production. Crystal took the first place in the competition "Business for Gender Equality 2020", hosted by the Millennium Challenge Foundation in partnership with the UN Women and the Business Leaders Federation "Women for the Future".

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

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STRATEGIC REPORT

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

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 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 316 million, employing around 1,000 members of staff, operating through 50 branches and serving more than 112,900 unique customers across Georgia.

Crystal's institutional shareholders are Incofin IM and Developing World Markets. The Company enjoys a longstanding 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.

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FINANCIAL AND OPERATIONAL HIGHLIGHTS

Amounts are in Georgian Lari

	2020	2019	Δ
NET LOSS	(852 K)	(324 K)	162.96%
TOTAL ASSETS	366,074	337,095	8.60%
NPLs	7.79%	5.58%	2.21%
COST OF RISK	1.68%	3.09%	-1.41%
LOAN PORTFOLIO	315,880	297,211	6.28%
TOTAL EQUITY	58,011	59,862	-3.09%
COST to INCOME (incl. cost of funding)	72.12%	73.55%	-1.43%
BRANCHES	50	48	4.17%
ROA	-0.24%	-0.10%	-0.14%
ROE	-1.45%	-0.58%	-0.87%
CUSTOMERS	112,903	100,163	12.72%
EMPLOYEES	1,037	989	4.85%

STRATEGIC REPORT

CHAIR'S STATEMENT

Archil Bakuradze
Chair of Supervisory Board

Dear stakeholders,

I am delighted to report that we have successfully weathered the once-in-a-generation crisis caused by the invisible enemy, COVID-19. As we think in sadness about those who have lost their lives, we know that the light at the end of the tunnel is finally shining bright, and we are on the way to returning to our normal lives. This was a year of heroic dedication, a demonstration of resilience and a celebration of entrepreneurship at its best. I think the symbol of 2020 for Crystal is our cash desk operator (please see the cover of this report), who perfectly exemplifies the deeds of our frontline staffers, having fearlessly fulfilled their duties to provide an uninterrupted service to thousands of Crystal's customers across Georgia. This would be impossible without the dedication of those who worked behind the scenes, each fighting stress and self-isolation. That is why I and my colleagues in the Supervisory Board are proud of and grateful for Crystal, its management and its employees of more than 1,000 strong women and men, both at our headquarters and throughout the 50 branch offices.

In 2020, we have rather vividly seen that a genuine commitment to customer well-being produces reciprocal support and loyalty. As we entered the unchartered waters of COVID-19 in March, we knew Georgia was facing a deep economic recession, while 110,000 of our customers and their families became vulnerable to the loss of their daily income. As a result of the pandemic, around 75% of our customers experienced a decrease in, or full interruption of, their income (63.3% and 12.2%, respectively). The snap survey we organised in mid-April showed that 54.2% of respondents had no savings, while 24.9% said their savings would last fewer than two months, and for 8.7% between two to three months. When we asked about their hopes and plans for re-establishing their revenues, an alarming 55.1% of customers suggested that they had no plans in mind, and an additional 16.4% found the question hard to answer.

Resultingly, approximately 93% of our customers used the universal proposed 3-month moratorium. As we weathered the first wave of the pandemic, we saw impressively high rates of repayment, as well as increased borrowing activity. High exposure to agriculture and the low-level of specialisation of our micro-entrepreneurs proved to be positive factors in 2020. We saw that the majority of our customers made instant adjustments to demand and supply shocks by divesting from hard-hit sectors of the economy, such as tourism and related services. This natural diversification of Crystal's portfolio, alongside the timely measures and inherent resilience of

Georgian micro and small entrepreneurs, resulted in a lower than expected level of Non-Performing Loans (NPL). Although in the earlier stages of the pandemic we predicted a 300% deterioration in NPLs, having reserved adequate capital buffers to absorb those losses, we ended the year with worsened assets quality at a scale of approximately 40%, mainly due to the loan restructuring options granted to the most damaged business sectors. Consequently, at the end of 2020, Crystal's NPL stood at 7.8% (5.6% in 2019).

We have suffered a limited loss, translated into a negative ROE of 1.4%, nevertheless we are pleased to have achieved moderate growth in the loan portfolio, of roughly 6.3%, having observed positive trends in the Cost-to-Income Ratio, 72.1% (73.6% in 2019), and a still robust Net Interest Margin of 16.9% (18.2% in 2019). We also managed to increase the number of customers by 12.7%, reaching out to 112 thousand individuals and their families.

Crystal would not be able to withstand a challenge of this magnitude without the support of the regulator – the National Bank of Georgia (NBG), the Government of Georgia and, last but not least, Crystal's long-standing lenders and partners. The Georgian Government, through its extraordinary policy response, managed to delay the impact of the first wave of the pandemic, thus winning time for revamping the country's epidemiological and healthcare capacities. It is worth mentioning that Georgia received unprecedented support from the United States, the EU, the IMF and multiple development finance institutions. The Government and NBG declared microfinance to be a priority sector for dealing with the effects of COVID-19; having activated a range of policy instruments, such as a foreign currency hedging facility to mitigate market risks and a sizable targeted liquidity facility for MFOs. NBG moreover lowered the capital buffers, allowing MFOs to absorb the anticipated losses. Finally, the Ministry of Economy and Sustainable Development developed a guarantee fund to facilitate lending to vulnerable sectors of the economy.

Crystal entered the crisis with an unusually high level of liquidity, initially mobilised for a bank acquisition transaction. Given significant loan repayment rates, we maintained a robust level of liquidity throughout 2020, having served all planned repayments. We are grateful for the overwhelming support from our lenders for offering renewal of facilities and showing flexibility with loan covenants. We are also proud to have successfully arranged, in an unprecedented space of time, the Loan Portfolio Guarantee Facility with the Development Finance Corporation, with support from USAID and SIDA. This USD 15 million facility will enable us to enhance access to finance for thousands of MSMEs across Georgia over several years.

Due to the timing of the crisis, we had to withdraw from our planned bank acquisition transaction. However, we did appreciate working with the counter-party and receiving strong support from our key funders. The collaboration with NBG's respective teams has further helped us embark on a bank transformation journey that we aim to complete in 2022.

We commend the structural and qualitative reforms led by Ilia Revia, our CEO, and the entire Management Team, including the heads of our subsidiaries, JSC Crystal Leasing and LLC Crystal Consulting. Despite difficulties, Crystal has managed to revamp its remote loan origination and underwriting processes, improve product line-up, bolster the loan collection system, strengthen back-office processes and enhance the company's analytical capabilities.

Amongst many product innovations, we are pleased to celebrate the successful launch of the leasing line, which offers sophisticated, and much-demanded, fixed-asset financing to MSMEs.

We are also observing the transformative potential of the non-financial services delivered by Crystal Consulting, which, alongside our wide range of financial products, truly makes Crystal a platform for the development of MSMEs. Thanks to our long-standing partnership with USAID, we have provided training and mentoring services to 1400 young entrepreneurs through the Youth Entrepreneurship School. Under the auspices of Buzz Georgia, we have also provided training in soft skills and financial capabilities to 500 women entrepreneurs.

As in previous years, we have scrupulously measured the social impact of our activities, and the outcomes of the Social Impact Measurement exercise have been integrated into this report (Annex 3).

We are pleased to follow the growth of Crystal's energy efficiency and renewable energy portfolio, reaching GEL 10.7 million. We aim of an increase of GEL 50 million by 2026 through the organic growth of our green products and by participating in large-scale initiatives; such as one aimed at reducing the effects of deforestation – led by GIZ (German Development Cooperation) and funded by the Global Climate Fund (GCF) and other donors.

In 2021, we shall be fully focused on becoming a commercial bank, which will strengthen Crystal's position as a financial inclusion organisation, and enable us to offer savings and current account services to customers. It will also unlock substantial shareholder value, against the low risks of the highly regulated banking sector and Georgia's consistently robust macro-prudential performance. Bank transformation will bring more efficient capital stack, increased revenues from non-credit products and access to local currency deposits.

Taking account of the market potential, the company will pursue its growth strategy which will further unlock efficiencies of scale. This will be accomplished in parallel with business process automation and our ambitious digitalisation work. Crystal will continue to be best-in-class in ESG and managing our 3P (People, Planet and Profit) outcomes. On this note, I encourage you to follow our newly developed Investor Relations Portal: https://ir.crystal.ge/.

Before closing, I am pleased to mention that last year we finally witnessed the outcome of the long process which brought legal clarity to the outstanding shareholder issues originating from 2012. This resulted in Crystal Fund taking a more symbolic position in the shareholding structure, and the emergence of key managers and founders as an important class of committed shareholder. As of the end of 2020, the group of key managers and co-founders own 36.6% of the company, on a fully diluted basis. Over the next few years, we shall be gearing towards welcoming the next generation of institutional investors to realise our ambitious strategy of becoming a sustainable and data-driven bank that acts as a platform for MSME development.

In conclusion, I would like to thank all of our esteemed lenders, bondholders, partners and vendors, as well as our regulator, each of whom enable Crystal to deliver long-term shareholder value and fulfil its critically important mission of financial inclusion.

CHIEF EXECUTIVE OFFICER'S LETTER

Ilia Revia
Chief Executive Officer

Dear Stakeholders,

Over the 23 years since Crystal's birth, Georgia has faced a multitude of threats and challenges. This past year, though, has been uniquely difficult. Living under this unprecedented new reality, Crystal has witnessed a restructuring of the economic and social order in which Georgian society and business have traditionally operated. A large proportion of the Georgian population and many businesses have experienced uncertainty and financial stress. This confluence of the COVID-19 pandemic, financial uncertainty and uneasy political processes have exposed multiple weaknesses in Georgia's economy resulting in a 6.1% real GDP contraction, and a 3.2% reduction of economically active persons. . As such, economic activity fell sharply in 2020, although the decline was mitigated by relatively strong fiscal stimulus and lending growth.

Without stressing the obvious, 2020 was a challenging year marked by historic events and unforeseen changes to our lives at work and at home, however it was also ayear of learning for us, both at the team and individual level.

Despite the challenges, the Georgian financial system maintained its high resilience; caused by prudent policy measures implemented over recent years. The capital requirements imposed on financial institutions by the National Bank of Georgia enabled the financial sector to accumulate sufficient buffers to recover from stressful such situations. Microfinance organisations, which have been subject to prudential requirements over recent years, also remained resilient.

Crystal entered 2020 in strong shape, after weathering the regulatory changes of 2018-19, with strengthened risk management processes, decreased total NPL and an optimised distribution network. Due to the strength and agility exhibited, we had planned to receive a banking license via the acquisition of a local bank and were rapidly moving towards that target at the beginning of 2020. Little did we expect that, by the end of Q1 2020, the entire world would have changed, and multiple strategic projects, such as the proposed acquisition, would be placed on hold. As a result of the spread of the pandemic to Georgia, our entire effort swiftly refocused towards keeping our employees and customers healthy, assisting the economic recovery and safeguarding Crystal's shareholder value.

As a socially responsible company, we have taken all appropriate measures to prevent COVID-19 infection to our employees and customers. The company implemented a work-from-home policy with the vast majority of HQ personnel and all at-risk employees requested to stay out of the office. In order to maintain the same level of service to our customers, all online/ remote access capabilities were duly provided to our employees. During both Georgian lockdowns in 2020, Crystal branches remained open and functioning, with branch employees working in shifts.

At the beginning of the crisis, near-term issues of liquidity management and the solvency of our customers were clearly paramount. We therefore introduced a three-month moratorium on repayments, which was conducted concurrently with detailed interviews of more than a thousand customers to assess their immediate needs and recovery plans. As Crystal's asset class mainly comprises of microfinance loans with smaller tickets, and many of our customers maintain multiple sources of income, our almost 100% GEL denominated portfolio proved to be resilient to shocks, with total NPL (PAR 30 + Restructurings + Write Offs) increasing by 2% by year-end. The restructured portfolio was the main driver behind quality deterioration, as a logical economic consequence of the lockdowns. Crystal used this instrument to support its clients in decreasing their financial burden in the recovery period. Importantly, Crystal's loyal approach towards its clientele paid off over the year, where the number of unique lending customers doing business with us has increased by 13% YoY.

Considering the impact of the crisis on our financial parameters, we have taken a rigorous review of our budgeting and cost management processes. Cost optimisations have been introduced, which helped to offset certain crisis-related expenses. Despite the 14.3% GEL rate deterioration, an inflation rate hike of 5.2%, an overall funding cost increase from 8.8% to 10.2%, and the related increased cost of doing business – we have managed to decrease our OPEX cost by 5.7 % and have improved the OPEX ratio from 13.9% to 12.0% YoY. Consequently, we managed to deliver a positive return on average equity in the final quarter of 2020 and -1.4% over the full year.

In terms of capital management, we made an additional general provision of 5% of our portfolio, in line with the NBG updated supervisory plan for MFIs in response to the pandemic. Moreover, the regulator has permitted a decrease of the total CAR requirement to 12%, from the standing 18%, to afford for potential losses. At year-end, our CAR stayed at the comfortable level of 17.05%, much higher than the new regulatory threshold.

As a result of pandemic-related market changes, we originally anticipated moderate YoY growth of our portfolio, within 5%, and slightly exceeded these expectations by delivering a growth of 5.9%. A notable part of that growth came from medium and small sized tickets (loans under GEL 30,000) which underscores the resilience of micro and small entrepreneurs during times of crisis.

Crystal's team members came together to discover and implement new ways of rapidly adapting to the new reality. We have continued the roll-out of lending products, such as the long-maturity overdraft, mortgage loans, business re-start loans and "Nitro", our innovative auto lending product. Our newly established leasing products made their first steps during the crisis year and accumulated a portfolio of GEL 2.8 million. Moreover, a new mechanism for portfolio management was created, allowing us to increase the problem loan recoveries ratio by 5.6%, despite the two lockdowns. While across the company, the additional strengthening of risk management culture and systems was achieved by creating a portfolio stress-test methodology, thus making serious steps towards automating ECL calculation, and bolstering our credit and operations control unit.

The development and refinement of internal management processes continued with the roll out of a new performance management process and goal setting system for our employees, enhanced Business Intelligence abilities and the creation of a remote working manual for employees. Throughout 2020, the company also continued increasing its efficiency by working towards a leaner structure and decreasing the number of organisational units by almost a quarter compared to the previous year.

Digitalisation has further continued with increased speed, where we have focused on building better online capabilities. For instance, we rolled out our brand-new online financing platform – Crystal One – which provides a fully remote loan application and disbursement process, including client onboarding, authentication and validation services to both existing and new customers. Our intention is to develop the platform into the best digital microfinance lending experience in Georgia. In addition to the core digital business development, the rapid deployment of our leasing software system allowed Crystal Leasing to automate all of its transactions.

In line with Crystal's mid-term plan to transform into a bank, in the final quarter of 2020 we commenced implementation of the core banking system from a reputable local vendor, Alta Software, which has been successfully running in 11 Georgian banks for over 20 years. Alta's core banking system is fully compatible with local business and regulatory requirements. This will be a major IT project for Crystal in 2021, planned to go live in Q4.

During a period of exceptional strain for the entire financial sector, it has been gratifying to see all of our partners unwavering support for Crystal. By the end of 2020, Crystal had received waivers and no-action letters for all covenant breaches due to COVID-19 crisis and obtained IFI funding in the form of USD 33 million. In addition to providing traditional financing opportunities, Crystal was the first MFI to sign a tripartite agreement with the Development Finance Corporation (DFC) and the Swedish International Development Cooperation Agency (SIDA) for a USD 15 million loan guarantee program for Georgian MSMEs. This transaction emphasises continued international belief in the Georgian microfinance sector, even during the COVID-19 pandemic.

The year was also marked by initial cooperation with governmental entities, such as signing an agreement with Enterprise Georgia (a subsidiary of the Ministry of Economy and Sustainable Development), making Crystal the pioneer non-banking financial institution to participate in the government's loan guarantee and interest rate subsidy programmes – those intended to support the most affected industries during the pandemic.

I cannot omit to mention the vital support the National Bank of Georgia provided the financial industry and Crystal in particular. At the beginning of the crisis NBG earmarked special facilities for Crystal in the form of a GEL 68 million senior line facility, together with USD 50 million currency swap facility aimed at decreasing crisis inflated hedging costs. NBG's prudential measures, reliable communications with the MFI industry and assistance throughout the crisis have each proved exceptional.

During the period, we have further continued execution of our new strategy, which emphasises an increase in branchless (fully digital) operations and decreases the need for cash operations. With the assistance of our esteemed partners, we also carried out additional business adaptation and offered consulting advice for our business customers, thus increasing sustainability and development opportunities, those so critically required in the crisis – while staying true to our mission to act as a platform for the development of Georgia's micro and small entrepreneurs.

In a time of exceptional strain on our society, it has been gratifying to see our people take it upon themselves to serve communities in need of assistance. Crystal's professionals, as always, have been motivated to use their skills to make a difference. At the onset of the crisis, Crystal conducted the "Contain COVID-19" Online Hackathon – identifying and financing innovative start-ups which offer effective and fast business solutions against the negative consequences of the pandemic. Amongst our many E&S activities, we also actively continued to support the Young Entrepreneurs School (YES-Georgia), donated to socially vulnerable families via the 1anoba social platform, provided a summer school scholarship for young women, and sponsored community projects that provided access to potable water, a medical ambulatory centre, and a public library to remote regions of Georgia. While the obvious 2020 highlight of Crystal's E&S activities has been Buzz Georgia, and as part of the program, **500** female entrepreneurs received business advisory and entrepreneurial development services from Crystal.

All of our good work was hardly left without notice, with Crystal receiving significant recognition for the way it does business, including:

- Crystal's Green Finance program received a Corporate and Social Responsibility Award – in Sustainable Production and Consumption – from UN Global Compact Georgia.
- Crystal received the Business for Gender Equality award from the Millennium Challenge Fund for promoting Gender Equality.
- We received for the second time in row the Annual Report and Transparency Honorary Award, established by the World Bank and European Union.

This crisis revealed not just vulnerabilities but also opportunities for us to improve our business performance. The aftermath of the early stages of the pandemic provided us the chance to learn from various social and technological innovations and experiments. For instance, finding ways to serve clients with minimal disruption while also supporting our communities, and keeping our people engaged, productive and healthy has tested Crystal's organisational capabilities and spirit. Equally though, we are beginning to see a silver lining from within the crisis – the chance to make business and society better than before.

I cannot thank the incredible Crystal team enough, alongside all our stakeholders and partners. I am truly humbled by and beyond appreciative for the relentless commitment of our staff in continually serving our customers, their dedication to their work and genuine care for each other. Our resilience, while a product of many factors, is primarily due to our 1,000 professionals across Georgia. Our people make Crystal!

2021 is going to be bigger and better for Crystal!

Sincerely Yours,

Ilia Revia
Chief Executive Officer, Crystal

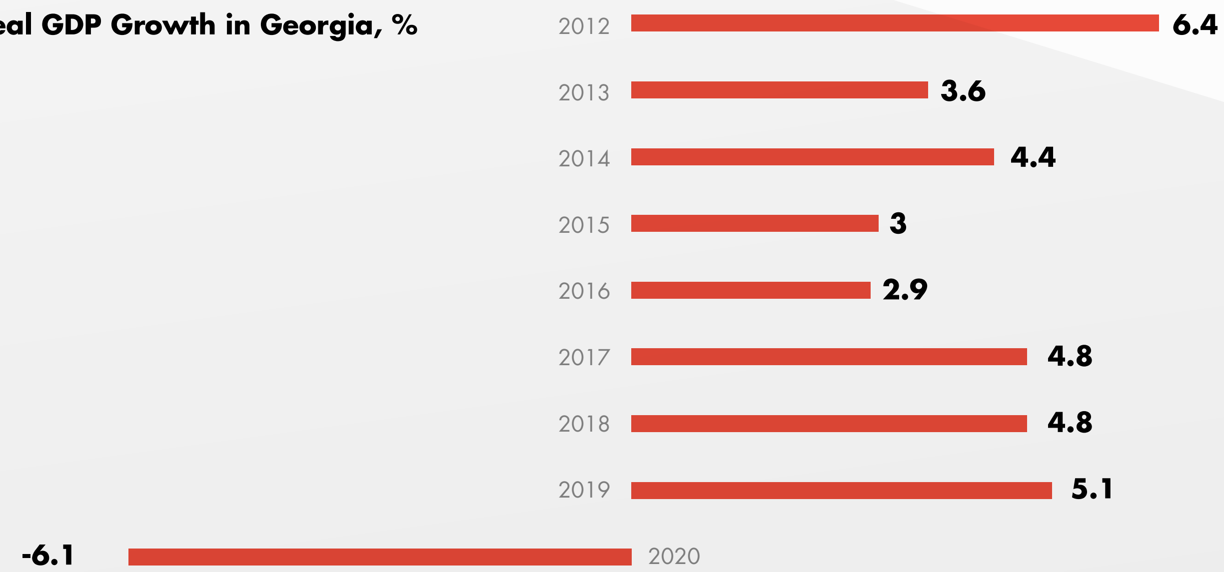
STRATEGIC REPORT

MACROECONOMIC AND MARKET OVERVIEW

Gross Domestic Product

In 2020, the COVID-19 pandemic posed enormous challenges globally, as well as to the Georgian economy. The pandemic damaged the tourist industry the most, which had recently developed into one of the major drivers of Georgian economic growth. As a result of the adverse impacts of the pandemic, the real GDP growth in 2020 amounted to -6.1%.

Real GDP Growth in Georgia, %



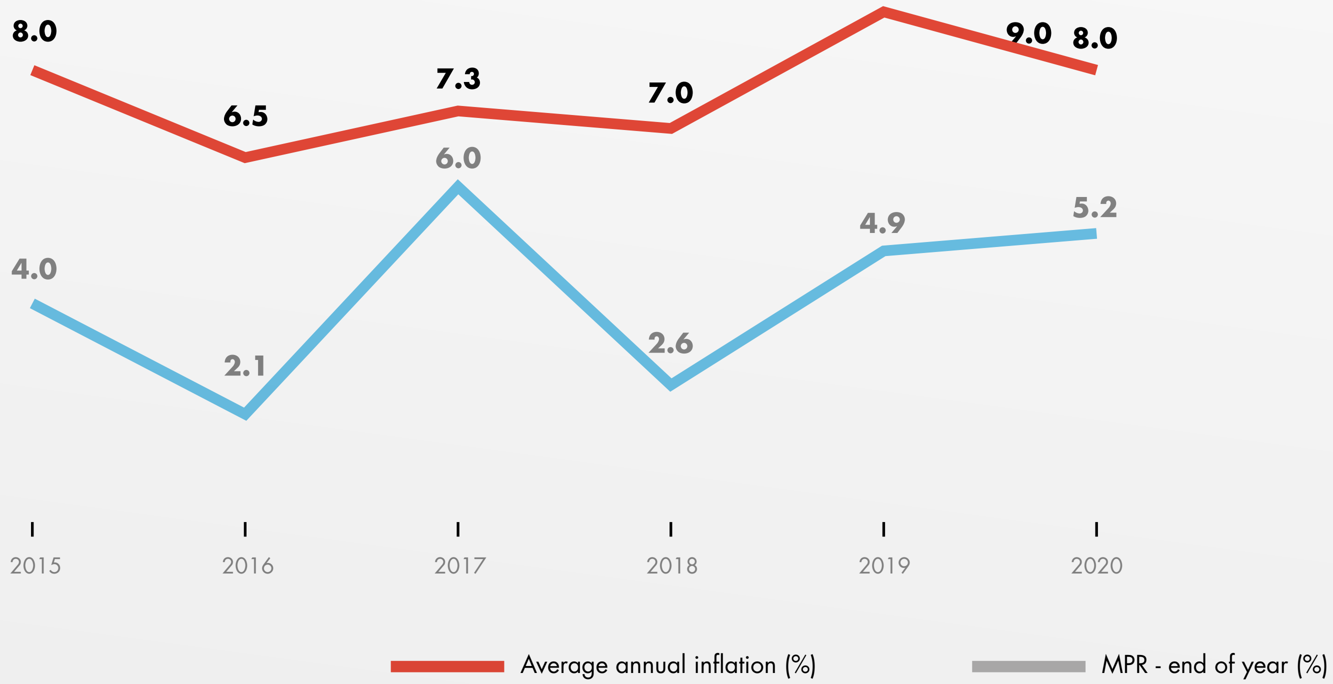
Source: National Statistics Office of Georgia

Inflation and Monetary Policy Rate

The restrictions introduced in response to the pandemic in 2020 increased production costs, leading to the risk of rising inflation and resulting in a high monetary policy rate (MPR) from the National Bank of Georgia over the entire year. By December 2020, the MPR was reduced by 1 pp compared to January 2020 and amounted to 8%.

Despite a reduction in demand and a high MPR, as a result of factors affecting inflation due to COVID-19 and the rising prices of oil and food, the average annual inflation increased by 0.3 pp compared to 2019 and equalled 5.2%.

Inflation and MPR in Georgia



Source: National Statistics Office of Georgia and National Bank

Employment and Unemployment

Starting from 2020, the National Statistics Office of Georgia updated its employment and unemployment calculation methodology. Under the new methodology, individuals who work in their own households and manufacture products mainly for their own consumption will no longer be considered self-employed. Those with this status are to be reclassified into other categories among the unemployed or the population outside the labour force. As a result of the introduction of this new standard, a recalculation of historical data was required and the National Statistics Office of Georgia has ensured the updating of standards since 2010.

In 2020, the unemployment level increased by 0.9 pp, equalling 18.5%. It is also worth noting that during the same period the economically active population reduced by 3.2% and amounted to 1,523 million people.

Unenemployment Levels in Georgia, %

Source: National Statistics Office of Georgia

MACROECONOMIC AND MARKET OVERVIEW

Export and Import

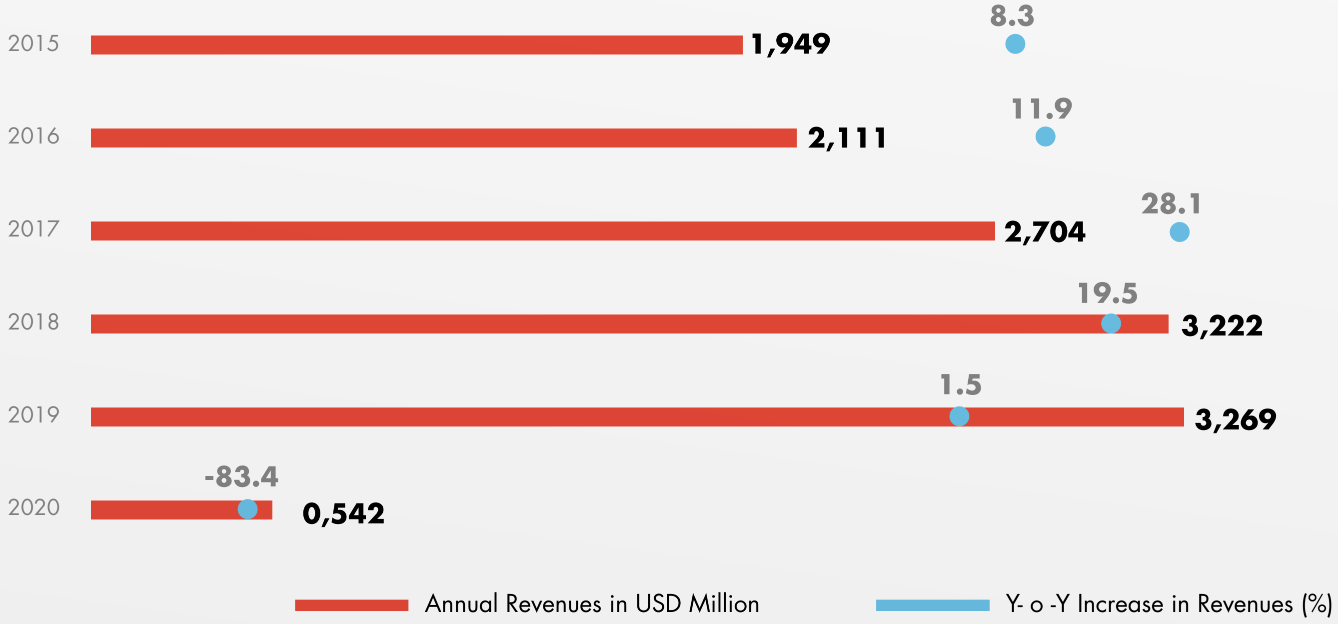
In light of reduced external demand in 2020, the export of goods amounted to USD 3,342.1 million, which is 12% less compared to the previous year. The major contributors were the CIS at 45.2% (-8.0 pp YoY) and the EU at 21.5% (-0.3 pp YoY).

The restrictions established as part of the pandemic significantly reduced internal demand as well; the import of goods amounted to USD 8,005.6 million in 2020, 15.9% less than 2019. The major contributors to import were the CIS 29.9% (3.0 pp YoY) and the EU 24.0% (-1.6 pp YoY).

Tourism

Starting from the first quarter of 2020, the tourism sector was severely affected by the negative impacts of COVID-19. The annual number of tourists reduced by 78.6% in 2020 and amounted to 1,089 thousand. As a result of the significant reductions in tourist flows, the revenues from tourism decreased by 83.4% and amounted to USD 541.7 million.

Tourism Revenues in Georgia

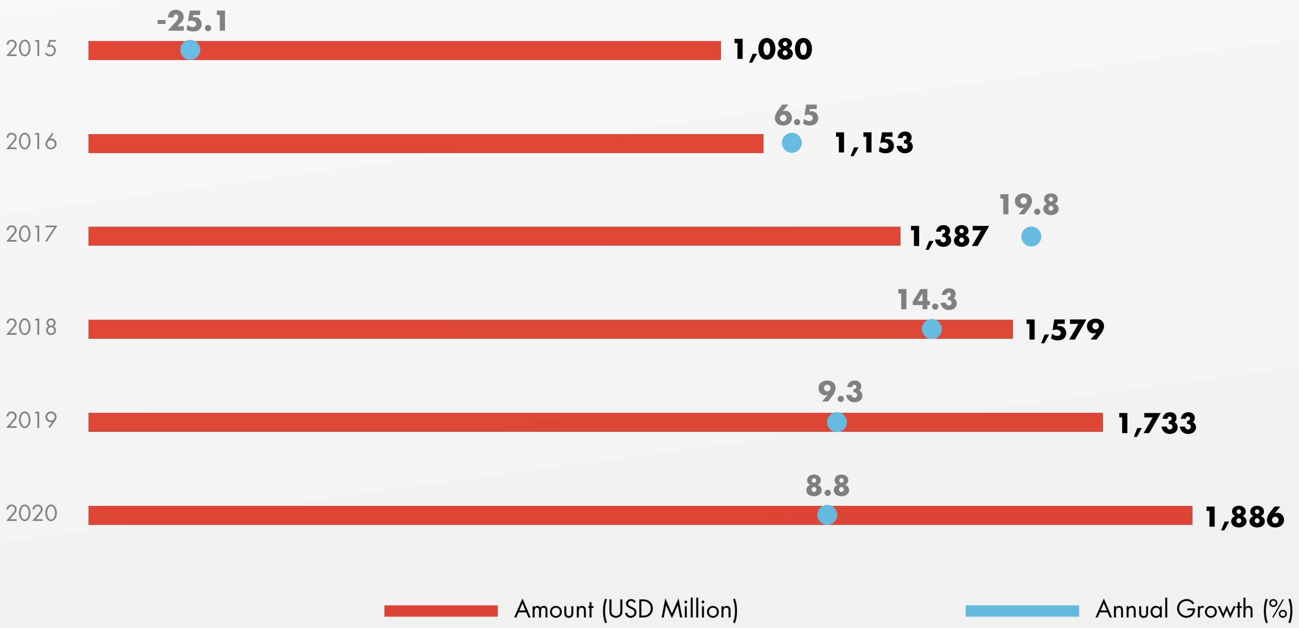


Source: National Bank of Georgia

Remittances

The flow of remittances increased by 8.8% (USD 153 million) YoY in 2020 and amounted to USD 1,886 million. A significant share of remittances came from Russia, taking 19.3% (USD 364 million, reduced by 5.4 pp YoY); followed by Italy with 15.8% (USD 298 million, indicating an increased share of 2.0 pp YoY); Greece with 11.6% (USD 219 million, increased by 0.5 pp YoY); the USA with 11.6% (USD 218 million, increased by 1.3 pp YoY); and Israel with 8.3% (USD 157 million, a share reduction share of 1.1 pp YoY).

Remittances to Georgia

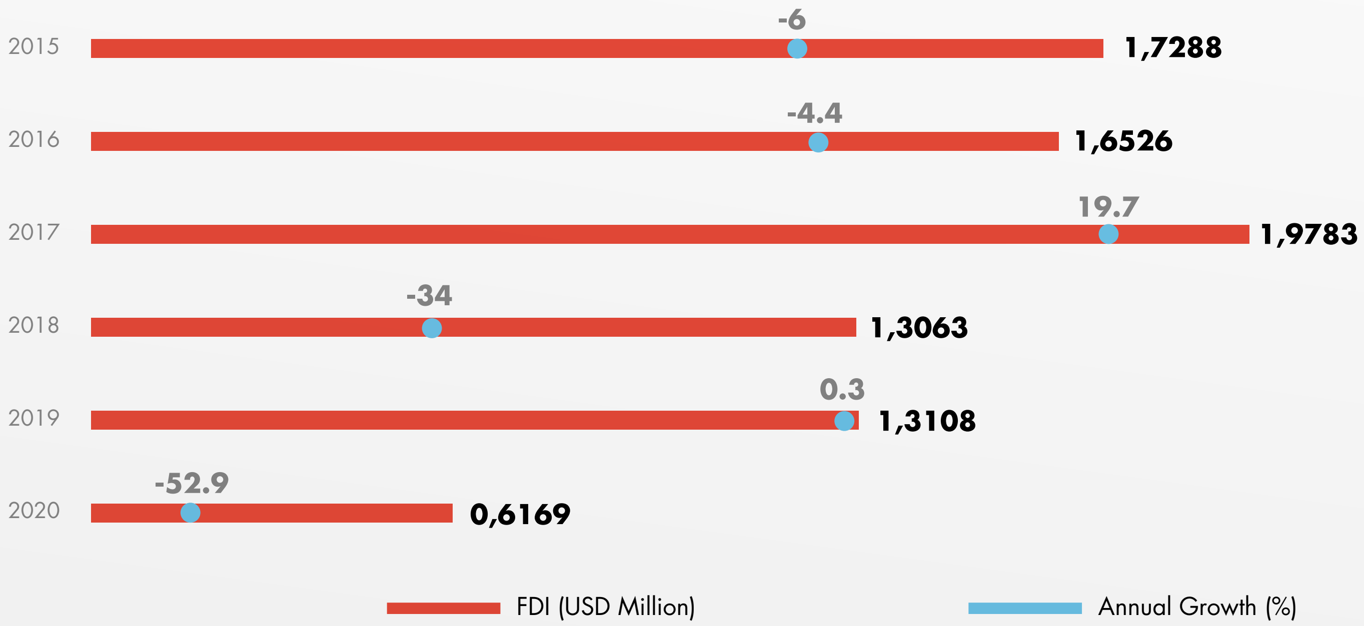


Source: National Bank of Georgia

Foreign Direct Investments

According to the preliminary data, in 2020 Foreign Direct Investment (FDI) inflows amounted to USD 616.9 million, which is 52.9% less than the specified data from 2019. The preliminary data indicates that the financial sector was the largest FDI recipient, at 64.9%, followed by mining (16.4%) and real estate (11.6%).

FDI in Georgia

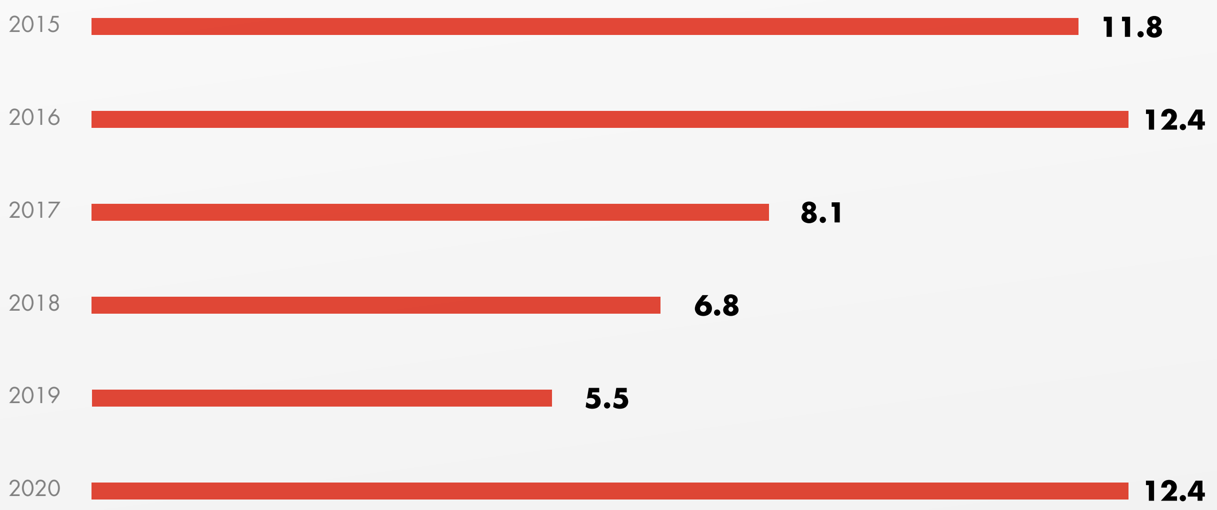


Source: National Statistics Office of Georgia

Current Account

Due to reduced external demand and FDI during the global pandemic, in accordance with the preliminary data from three quarters of 2020, the Current Account (CA) balance deteriorated. This stands in contrast to the steady improving trends of recent years. In 2020, the CA deficit amounted to USD 1,961,678 million, which is 12.4% of the quarterly GDP.

CA Deficit to GDP in Georgia, %



Source: National Bank of Georgia

MACROECONOMIC AND MARKET OVERVIEW

Exchange Rates and Foreign Exchange Reserves

At the end of 2020, as compared to 2019, the GEL exchange rate had depreciated against the USD by 14.3% and against the EUR by 25.4%, however against the Turkish Lira it had appreciated by 7.4% and against the Russian Ruble by 5.2%.

Compared to 2019, the average annual GEL exchange rate in 2020 depreciated by 10.3% against the USD and by 12.6% against the EUR, whereas it appreciated by 10.3% against the Turkish Lira and by 1.1% against the Russian Ruble.

Depreciation of the GEL exchange rate against the USD and EUR in 2020 was reflected in reductions of NEER and REER. In December 2020, compared to December 2019, NEER had reduced by 5.6% and REER reduced by 7.4%.

In order to contain the growth of inflation from substantial depreciation of the GEL against the USD between March and December 2020, NBG sold USD 873 million resulting in foreign currency reserves of USD 3,700 million.

Budget Deficit and Government Debt to GDP

The pandemic has negatively affected the parameters of the state budget, consequently, in accordance with the preliminary data, the budget deficit (in accordance with the IMF program) equates to 9.1% of GDP, which significantly exceeds the recommended 3% limit under the Maastricht criteria, and is 7 pp greater than similar data from the previous year.

According to preliminary data, in 2020, the government debt to GDP ratio amounted to 59.9%, which is 19.5 pp more YoY, and is almost equal to the recommended upper limited of 60% under the Maastricht criteria.

Lending Market

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

By the end of 2020, compared to 2019, the portfolios of commercial banks had increased by 6.89% (GEL 386.3 million) YoY and amounted to GEL 5,991 million. Whereas microfinance organisations' portfolios grew by 4.87% (GEL 55 million) YoY and stood at GEL 1,184 million. Thus, the total market size of portfolios increased by 6.55% (GEL 441.3 million) YoY and stood at GEL 7,175 million.

In terms of loan contracts, the market size decreased by 2.5% (85.2 thousand) YoY in 2020 compared to 2019, and equalled 3.27 million. contracts. In commercial banks, such contracts decreased by 1.47% (39.1 thousand) YoY and amounted to 2.61 million. contracts. Moreover, loan contracts from microfinance organisations declined by 6.51% (46.1 thousand) YoY and amounted to 662.4 thousand in total.

INTERNATIONAL RATINGS

S&P Global Ratings

Negative microeconomic trends and the ongoing political crisis were reflected in Georgia's upgraded long-term credit rating from Standard & Poor's (S&P), in which Georgia's assessment changed from positive to negative, while the sovereign credit rating remained unchanged at the BB level. The negative outlook reflects Georgia's risk to ensure appropriate inflows of foreign currency, in light of the poor chances of a fast tourism sector recovery and the uncertainties towards FDI.

World Bank Doing Business Report

In accordance with the World Bank's (WB) 2020 Doing Business report, which is based on 2019 data, Georgia still holds a leading position – taking 7^{th} place out of 190 countries (in the 2019 report it was ranked 6^{th}).

MACROECONOMIC OUTLOOK FOR 2021

In accordance with the 2021 report from S&P (February 26, 2020), GDP growth for Georgia is expected to stand at 4.0%; the consumer price index (CPI) is projected to increase by 4%; the CA deficit to GDP is predicted to be -12.7%; the budget balance to GDP ratio will be around -7.6%; and the government debt to GDP ratio will be 69.6%.

According to the Fitch ratings, based on reports published on February 18, 2021, the expected GDP growth for Georgia in 2021 is 4.3%, the budget balance to GDP -8%, while the government debt to GDP ratio is 60.4%.

The NBG prognosis made in February 2021 suggests the GDP growth rate in 2021 will be 4%, with inflation at 3.9%, and the monetary policy rate at 8%.

In accordance with the state budget of Georgia 2021, GDP is expected to increase by 4.3%, inflation by 2.5%, the budget balance to GDP ratio is expected to be 7.6%, and finally the government debt to GDP ratio will be 60.1%.

BUSINESS MODEL

Crystal is a leading Georgian financial inclusion organisation which provides various financial and non-financial services and acts as a development platform for customers. Our key strength is business model, which focuses on providing the best customer experience in micro finance.

Crystal provides services to its customers both through branches and digital channels. As of the end of 2020, Crystal can be found throughout Georgia in our 50 branches. While at the same time, our e-commerce, point-of-sale instalment and online lending platforms continue to attract new customers via online channels.

Our lending business offers a wide range of products to retail and business clients, creating an exceptional customer experience, with comfortable and innovative microfinance solutions alongside highly personalised consulting and development services within our business support programmes.

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

Crystal's funding sources are diversified, where financing is mainly derived from foreign financial institutions, although local commercial banks also represent a significant source of funding. Crystal has also developed alternative funding, such as issuing and placing corporate bonds.

We always pay special attention to the design of our products, internal systems, policies and procedures, employee skills, as well as our corporate culture, to ensure responsible lending practices. The company has a consistently positive reputation among its customers, financiers, regulators and other stakeholders.

CORPORATE STRATEGY

Our strategy is to become the best agriculture, micro and small business focused bank in Georgia, to create value for all our stakeholders and to develop our business sustainably. Moreover, the strategy is to expand on our experience and become a customer-centric, people-oriented and data-driven institution. Our strategy is therefore constantly evolving in order to address new challenges and seize new market opportunities as they arise.

As part of our growth and development strategy, in 2021-22 Crystal will apply and obtain a commercial banking license. Having reached institutional maturity, with the geographical footprint, number of customers and employees, Crystal is now effectively competing with banking institutions rather than much smaller MFIs. Our competitive capabilities versus banks are however limited by statutory requirements in the regulatory framework for microfinance institutions. As such, the commercial banking license would provide Crystal with better opportunities to fulfil its mission, giving the company the ability to effectively diversify funding sources, make funding costs more predictable, provide convenient products such as current and savings accounts and deposits to our customers, and furthermore to grow within the small business segment.

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

Operational Targets

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

- **Commercial banking license acquisition.**
- **Core banking system implementation.**
- **Expansion of the loan portfolio.**
- **Increased revenue from the non-credit business.**
- **Digitalisation and automation of business processes.**
- **Brand strengthening and improvement of customer experience.**
- **Improved talent management and organisational development systems.**
- **Strengthened risk governance.**
- **Enhanced E&S performance and measurement.**
- **Improved data governance and analytics.**

STRATEGIC REPORT

Crystal's Value Creation Model

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

The following diagram encapsulates Crystal's value creation model, demonstrating how our products, inputs, service channels and customer segments each generate outcomes which fall under the 3Ps: people, planet and profit. We have developed a measurement methodology against these outcomes, as highlighted in this integrated report. These effects crucially also produce impacts that contribute towards six of the UN SDGs.

We support micro and small entrepreneurs and smallholder farmers throughout Georgia in realising their business potential, reaching financial stability and improving their living standards. As a socially active player, Crystal offers responsible, innovative and green financial solutions, in combination with expertise critical for the customers' economic success.

Products/ Inputs		Chanels	Segments
Microloans	Instalments	Branches	Small Holder Farmers
SME Loans	EE&RE	Direct	Micro Entrepreneurs
Leasing	Factoring*	Mobile	SMEs
		Online	Retail Customers
Payments	Consulting	Call centre	Special Groups: Youth, Women, Diaspora*
Currency	Technology	Agent Network	Vehicle buyers, Mortage & GG loan users
Insurance	E-commerce	Merchants	

Impact/SDGs

Outcomes	Indicators
People	Business & Household Results
Planet	Carbon Footprint & Bio Diversity
Profit	Return on Equity

* future products and segments

OUTCOMES IN 2020

PEOPLE	PLANET	PROFIT
112,900 customer serviced. Average outstanding loan amount GEL 2,300. Female customers 60.1%. Borrowers outside urban areas 54.0%.	Green portfolio GEL 10.7 million. EE&RE product have been made available to 7,387 customers. 411 tons of CO^2 have been conserved.	ROE in 2020 was -1.4%. Albeit negative, the company weathered the COVID-19 crisis with minimal erosion of capital, having strengthened its institutional capacity, it will materialize as enhanced profitability in subsequent years.

STRATEGIC REPORT

CONTRIBUTIONS TO SDGs IN 2020

SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY

END POVERTY IN ALL ITS FORMS EVERYWHERE

Interim Targets

Crystal aims to reach 145,000 households by 2025, which represents 25% of the population. Our services will help these households escape from poverty through improved economic productivity. This is to be achieved by financial inclusion and access to critical skills and networks. Crystal will provide its customers, in particular women, the youth and other special groups, with a set of financial and non-financial services tailored to their needs, as well as access to markets and a technological stack.

Thousands of Crystal's successful customers will continue, indirectly, to act as role models for other members of the community, thus providing an example of how to overcome poverty and become economically prosperous.

Progress in 2020

In 2020, Crystal served about 112,000 customers with 54% of portfolio invested in micro-entrepreneurs and farmers.

We are projecting to increase the target of population served, staying committed to the lower end of bankable borrowers.

We have made substantial progress in securing our banking license, which will enable Crystal to offer financial inclusion services to all of its customers.

Crystal piloted non-financial services, including business consulting, mentoring and technological solutions aimed at increasing the productivity of MSMEs.

With support from USAID and W-GDP, we started Buzz-Georgia, the women's economic empowerment network.

4 QUALITY EDUCATION

ENSURE INCLUSIVE AND EQUITABLE QUALITY EDUCATION AND PROMOTE LIFELONG LEARNING OPPORTUNITIES FOR ALL

Interim Targets

Crystal offers effective lifelong learning opportunities via its innovative consulting and advisory platform, including online training, mentorship and networking opportunities, which aim to equip our customers with the critical knowledge, information and the skills vital for economic success.

Crystal, within its E&S scope and business model, supports the development of entrepreneurial skills among the youth and women, leading to their further employability and enhanced income-generation.

Progress in 2020

Crystal Consulting LLC designed business consultancy and mentoring services for MSMEs, successfully delivered to 74 customers.

Crystal, in partnership with Crystal Fund and funded by USAID and W-GDP, provided services to 1,400 individuals through the Youth Entrepreneurship School.

69 participants received funding from Crystal's micro-equity fund.

500 women participated in soft-skills training under the Buzz-Georgia umbrella.

Throughout 2020 various trainings were conducted to 2684 participants.

5 GENDER EQUALITY

ACHIEVE GENDER EQUALITY AND EMPOWER ALL WOMEN AND GIRLS

Interim Targets

Crystal is one of five Georgian companies to have supported Women's Economic Empowerment (WEPs) since its instigation. Our HR and people-related policies and procedures ensure gender equality throughout the company; of which 52% of employees (approximately 500) are women. We also support the development of leadership skills for female employees through various activities, such as training, workshops, and mechanisms for preventing sexual harassment, amongst others.

Moreover, Crystal, with our special services (financial, non-financial) tailored to female customers, will make a crucial impact on their economic participation and the wellbeing of their families.

Progress in 2020

66.7% of the staff are female.

Crystal has developed mechanisms for preventing sexual harassment.

60% of our customers are female.

In harmony with Crystal's Women's Empowerment action plan, within the framework of women mentoring program, 107 female employees were promoted in Crystal in 2020.

7 AFFORDABLE AND CLEAN ENERGY

ENSURE ACCESS TO AFFORDABLE, RELIABLE, SUSTAINABLE AND MODERN ENERGY FOR ALL

Interim Targets

Crystal's green loan portfolio will reach GEL 50 million by 2026, thus making a significant impact on the energy efficiency of our households and contributing positively to the prevention of climate change and lowering GHG emissions.

Besides which, we will assess Crystal's carbon footprint, reduce emissions in the workplace and offset any remaining or unavoidable carbon emissions by 2025. Crystal is also tackling climate change by becoming carbon neutral, caring for developing communities and preserving biodiversity.

Progress in 2020

The green portfolio reached GEL 10.7 million.

While the majority of EE&RE products serve energy efficiency, Crystal has further encouraged the use of solar installations at amount of GEL 17,165.

The preparatory work has been fully put into place for the commencement of largescale projects against de-forestation – led by GIZ and funded by the Green Climate Fund amongst others.

Crystal is successfully measuring its reduction in CO_2 emissions, aiming to assess our total carbon footprint and to set annual targets for becoming, at least, carbon-neutral by 2025.

8 DECENT WORK AND ECONOMIC GROWTH

PROMOTE SUSTAINED, INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH, FULL AND PRODUCTIVE EMPLOYMENT AND DECENT WORK FOR ALL

Interim Targets

Crystal's financial inclusion services offer knowledge and investment opportunities for greater customer productivity. It is also noteworthy that Crystal focuses on high value added and labour-intensive sectors.

Our services are primarily targeted towards promoting and supporting entrepreneurship, leading to the development of MSMEs.

The youth are important customer segments for Crystal; currently targeted through our CSR program – YES-Georgia – as a pre-requisite for their commercial propositions, therefore leading to improved economic participation from younger generations.

Finally, tourism is one of Crystal's high-priority investment sectors. In which, we are focused on sustainable practices, which alongside other factors promotes local culture.

Progress in 2020

54% of the loan portfolio dedicated to productive loans, including SME (22%), agriculture (17%) and microbusiness loans (15%).

Young adults (below 35) have 30,0% of the loans, and 23,8% of the loan portfolio;

There has been no tangible evidence for the creation of employment beyond family members, however, Crystal's SME strategy aims to provide financial and non-financial services to high-growth enterprises, acting as the main generators behind high-quality job creation.

The tourism industry was the hardest hit by COVID-19 in 2020, as such Crystal offered its borrowers a 3-month payment holiday, followed by loan restructuring.

During this difficult business period, Crystal fully retained its staff and salaries were not reduced. Furthermore, all benefits effective for company employees prior to the emergency were also retained;

47% of the customer benefiting from productive loans say that they have improved their production, and 29% say that they increased profit.

crystal Financial Inclusion Organization
CORPORATE STRATEGY

10 REDUCED INEQUALITIES

REDUCE INEQUALITY WITHIN AND AMONG COUNTRIES

Interim Targets

We target the population under the bottom 40 per cent of earners, enabling them to tackle their vulnerable socio-economic positions and to grow more resilient. This is achieved by supporting entrepreneurial activities, which consequently generate higher levels of income and improved household welfare.

Via diaspora related activities, Crystal not only reduces the cost of remittances (mainly improving the spread on currency exchange) but also fosters total financial inclusion for a sizable number of Georgian economic migrants, thus resulting in greater economic resilience for migrant families in Georgia.

Progress in 2020

The current services are offered to families (living in Georgia) of economic migrants, including remittances, FX services and loans against the regular flow of remittances. This proposition will be expanded upon with the acquisition of our banking license.

KEY BUSINESS OUTCOMES

Major Business Updates

At the beginning of the year, major business efforts were performed in order to eliminate adverse impacts of the pandemic. To support our clients, a loan postponement instrument was offered and thereafter utilised for over 124,000 loans.

At the outset of the pandemic, in order to create special offers for client support, a quantitative study was carried out from a survey of 1,100 customers. Having analysed customer needs and feedback, the company developed a post-crisis lending program tailored to customer demands, which also wholly considered business activities on the market and the needs of specific segments. Therefore, customers were offered methods for tackling the post-crisis environment that could be adapted to their individual needs.

During the pandemic, the company ensured the digitalisation of services and offered customers our main products via online services. In addition, the branch network managed to operate seamlessly and in full compliance with the established regulations and requirements.

- The company offered Credit Life Insurance products to all of its clients, and over 14,000 customers and businesses became insured.
- From the agricultural perspective, the company joined the Crop Insurance Project, governmentally funded, with over 1,000 insurance policies financed.
- Micro lending processes and approaches also changed allowing us to serve over 45,000 clients.
- The branch network moreover expanded to include three additional branches, operating in accordance with the new concept, where customers now have an opportunity to use non-credit products during extended working hours.

REFINANCING ACTIVITIES

Crystal settled nine transactions in 2020 with the following international financial institutions: the European Investment Bank, BlueOrchard, Microvest, Incofin, the European Fund for Southeast Europe, and Symbiotics. The total funding of which exceeded $33 million, with 78% of transactions taking place in the first quarter, since the company was planning bank acquisition. However, as the acquisition process was abandoned due to pandemic-related uncertainty, a liquidity of nearly 60 million GEL safeguarded Crystal against liquidity risks in the course of pandemic.

Due to lower credit demand and updated, conservative, growth targets, Crystal did not carry out its senior debt transaction with IFIs in the second half of 2020, since local available facilities were sufficient to meet the funding needs. It is worth noting that NBG’s support towards the microfinance sector was extensive, as such Crystal benefited from USD 50 million currency swap line and a stand-by credit facility of GEL 68 million.

Lender Transactions Executed in 2020

TECHNICAL ASSISTANCE

Crystal is actively engaged in the Technical Assistance program implementation process and regularly seeks new opportunities to support company development through various programmes. In total, Crystal managed to attract over GEL 660,000 for TA projects in 2020, with its own participation of 24%. In this respect, Crystal successfully collaborated with the following institutions: the Green for Growth Fund, the European Fund for Southeast Europe, Proparco, the European Investment Bank, Frankfurt School of Finance & Management, Incofin IM and Developing World Markets (’DWM’). Crystal was supported in the implementation of the following projects: Technical Facility for the Enhancement of Sustainability Framework; The Green Products Awareness Raising Marketing Campaign; Automation of ECL Calculation; Training courses for staff; Development of methodology and policies for Crystal Leasing and other ongoing projects. One of the noteworthy project aimed at supporting 100 entrepreneurs to develop their presence at the e-commerce marketplace Akido in combination with training on resilience strategy and coaching of the management. With support of Incofin IM, Crystal in conjunction with Cerise, conducted a comprehensive social impact measurement. DWM provided support on measuring the impact of COVID-19 pandemic on our end customers through the partnership with BFA.

LEASING BUSINESS

2020 Overview

Akin to industries worldwide, 2020 was full of challenges for the leasing business. Throughout the year, the business confidence and entrepreneurship initiatives indices fell dramatically, which had a direct effect in reducing initiatives for incurring capital expenditure. The current economic situation and the impact of COVID-19 seriously affected the portfolio of leasing operators within Georgia. In total, the leasing portfolio fell by 23% throughout the country.

During this period, MFO Crystal entered the leasing market. Despite these difficulties and challenges, Crystal Leasing efficiently adapted to a new environment. Moreover, the Crystal's Supervisory Board decided to establish Crystal Leasing as a subsidiary.

In light of the aforementioned details, Crystal Leasing achieved impressive results, in particular:

- A team was staffed.
- Software, adapted to the Georgian market and tailored to leasing operations, was implemented.
- Negotiations commenced with potential funders and local suppliers to create partnerships as well as generating sales channels and raising awareness.
- Crystal Leasing engaged in governmentally subsidised and supported economic development programmes, managed by LEPL Enterprise Georgia and the Agricultural and Rural Development Agency.
- Within the technical support of Proparco – a French corporation for supporting economic development and investment – up to 20 procedural documents and over 15 contract types were developed, targeted training was organised and products were created, each providing an opportunity for Crystal Leasing to match financial leasing products to the needs of the market.

Important Plans for 2021:

- At the expense of efficient operations and sales, the achievement of the operational break-even by Q4 2021 and increasing the portfolio up to GEL 13 million.
- Strengthening sales channels (digital channels, the network of Crystal branches, merchants, brokers and business associations).
- Sectoral and asset diversification, with improved concentration on the agricultural sector.
- Active cooperation with local asset providers in EE&RE domain attracting respective financial resources.

KEY RISKS AND UNCERTAINTIES

Core Risk Management Principles

The availability of a sound and effective risk management system, based on international standards and best practices, is one of Crystal's most significant goals.

Any risk management system must meet the following core principles **(ISO 31000):**

INFORM THE COMPANY
of any existing risks or threats in a timely manner.

ALLOW
for the prevention of possible losses and effective management of incidents.

CREATE
credible grounds for decision-making and planning.

INCREASE
the probability of achieving goals.

ENHANCE
the 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.

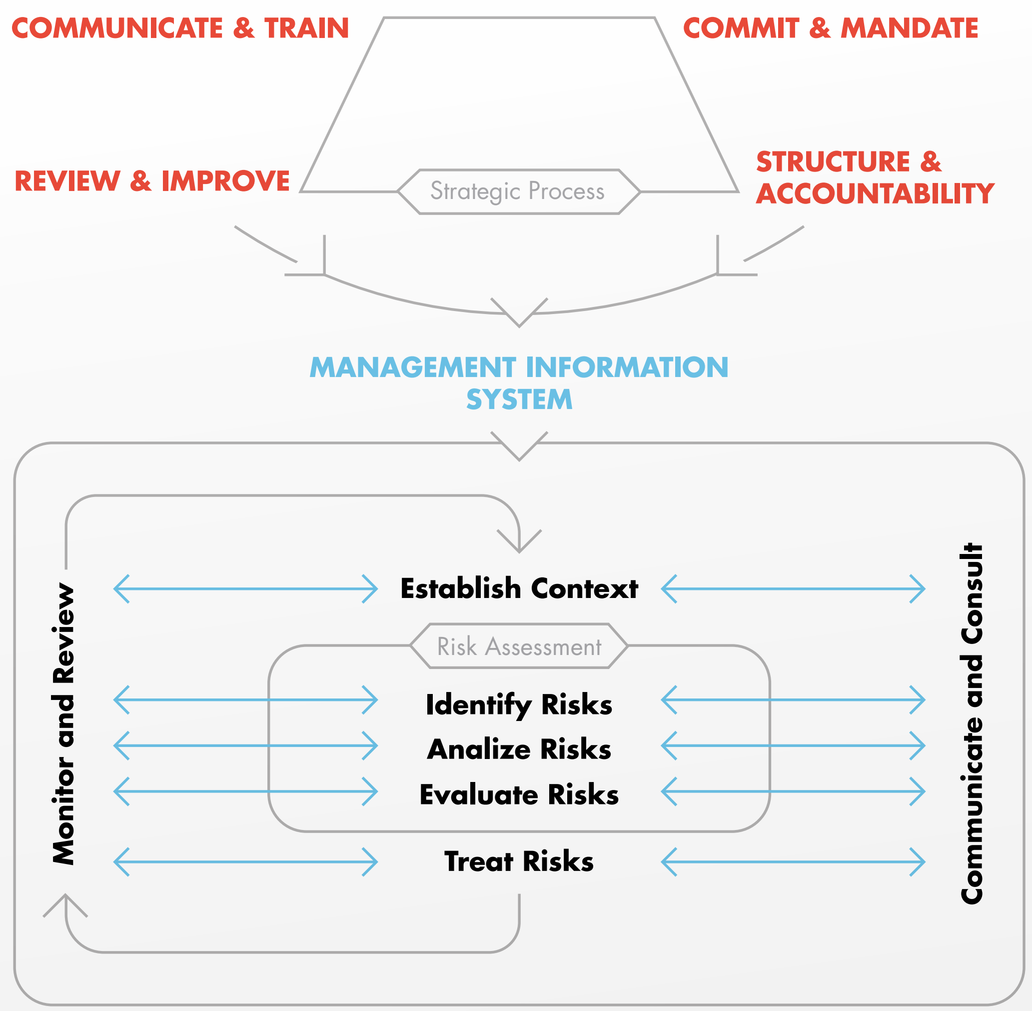
Risk Management Framework and Process

- The framework defines the major approaches required to integrate risk management within the overall management systems of the company.
- The effectiveness of the risk management system depends on its integration into the governance of the company, including decision-making. This requires support from stakeholders, particularly the Supervisory Board and top management.
- To ensure support, the Supervisory Board will carry out oversight of the Management Team within the process of developing solid risk management culture. It will continually express support for risk management and emphasise the significance of risk management process.

In order to achieve these goals, the Supervisory Board, in line with the Management Team, will ensure **(under ISO 31000)** that:

a) Risks are adequately considered when setting organisational objectives.
b) Risks are fully understood, systems to manage risks are implemented and operating effectively within the company.
c) The risk management system is integrated at all levels of the company, and in the decision-making process.
d) Functions, authorities and responsibilities are defined and distributed within the company, at all levels of risk management.
e) Activities related to risk management are implemented by the staff, who have appropriate experience, technical skills and access to all the necessary resources.
f) Staff who are responsible for risk management are independent from the business domain.
g) For an effective risk management system, the company provides all the necessary resources (including but not limited to necessary human resources; the accessibility of documents; information and systems; processes; the methods and means required for risk management; and possibilities for professional development and training).

The Risk Management Framework



1) **Mandate and commit** – the Supervisory Board defines the appropriate mandate and appetite for risk for the company management, approves a risk management policy, and ensures that the company culture and risk management policy are aligned.

2) **Communicate and train** – risk appetite and risk tolerance are clearly shared with both the company management and throughout the entire company.

3) **Structure and accountability** – the risk management structure clearly defines the rights and responsibilities of the unit accountable for risk management and its responsibilities for any results. The employees in the Risk Management Unit are independent and have appropriate competences and skills.

4) **Review and improve** – we systematically review and update the risk management system (by the unit responsible for risk management, as well as the Internal Audit Committee).

5) **Management information system** – this remains the most critical element of the risk management system. A company collects correct data through the appropriate data-recording system to discern whether damage suffered is within the limits of risk appetite.

Levels of Risk Management

The system consists of a Risk Management Framework, which includes a combination of risk management instruments and processes.

The Risk Management System is based on a three-level defence mechanism **(BCBS 2011)** within the company:

I LEVEL	the process owner – responsible for managing inherent risks within the process by using the risk management instruments implemented by the company.
II LEVEL	the Risk Management Unit – responsible for developing and updating the risk management system and implementing its instruments.
III LEVEL	the Internal Audit Committee – responsible for assessing the adequacy and effectiveness of risk management processes.

Risk Management Structure

All company staff must be involved in the risk management process, this remains one of the most important aspects of a comprehensive risk management system, that which also promotes enhanced sustainability.

Every structural unit of the company has its own responsibilities, each necessary for effective risk management processes:

SUPERVISORY BOARD	identifies the core goals of the company, approves the appetite for risk and the risk management policy. Furthermore, via the adjoining Risk Committee, the Supervisory Board reviews key risks and evaluates the effectiveness of the risk management system via the Internal Audit Committee.
SUPERVISORY BOARD COMMITTEE	(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 systems and processes that ought to be integrated or enhanced to manage and mitigate risks.
INTERNAL AUDIT COMMITTEE	monitors the risk management system and evaluates its effectiveness and sustainability.
CHIEF EXECUTIVE OFFICER	ensures the introduction of systems across the company to implement the policies and limits of risk appetite, as approved by the Supervisory Board.
MANAGEMENT TEAM RISK COMMITTEE	receives performance reports from the Risk Management Units in order to review any recommendations. The Committee may decide to enhance risk mitigation and control mechanisms after reviewing any submitted recommendations.
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 company's risk appetite, and create and update risk management instruments (after validation from the Management Team).
OPERATIONS MANAGEMENT UNIT	manages and controls risks at the operational level and is involved in the evaluation and review of risk management instruments.

Risk Mitigation and Overconcentration Management

The company mitigates risk 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 establishment of loan portfolio diversification limits, inter alia, for business sectors and sub-sectors. No more than 10-20% of the portfolio may be concentrated on any business sub-sector.
- 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 relevant information, with due regard to potential risks and project effectiveness.
- Credit scoring and credit ratings are performed to assist the responsible person in making the best decisions.
- When determining whether to finance a particular loan, the company's vision encourages the protection of customers from excessive financial burden. Any loan issued by Crystal must serve the development of the customer's business or the improvement of their living standards, and it should 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 to ease customer's credit burden.
- To gauge a variety of possible scenarios, stress-tests measure any anticipated risks.
- A system for reserving Expected Credit Loss, based on an international standard, which is in full compliance with IFRS-9 requirements and ensures the financial sustainability of the company.
- A risk incidents database, the analysis of which helps identify high-risk transactions and thereafter analyse weak controls.
- A comprehensive Fraud Detection and Management Policy.
- A sound Business Continuity Policy, which ensures the stability and sustainability of the company during various crises, including pandemics.
- The Credit and Cash-Based Transaction Control Unit is responsible for following up on transactions in order to identify any defects or pitfalls, and to formulate recommendations for further responses.
- A sound information security policy which is in full compliance with ISO 27001.
- In line with AML legislation, the company maintains an AML policy, aimed at preventing the execution of any transaction that might be related to money laundering or financing of terrorism.
- The company has integrated Acuity into its core system, offering a watchlist of sanctioned persons, that helps prevent trading with such individuals.
- AML Unit in the company regularly updates its internal regulations and procedures in line with legislative amendments.
- To mitigate compliance risks, the Compliance Unit assesses and implements all new procedures and products.
- A comprehensive ALCO committee process for managing liquidity, interest rates, foreign exchange risks and risks related to capital.
- Diversified, internal as well as international, partners acting as a key instrument for continuous funding and liquidity management.
- To manage and reduce foreign exchange risks, a hedging instrument is used for local as well as international markets.
- An adequate Foreign Currency open position limit, which does not exceed 10% of capital, ensures minimisation of expected losses due to foreign exchange risks.
- A comprehensive capital risk analysis and management mechanism, which ensures maintenance of the capital adequacy ratio in accordance with the requirements of the National Bank and the covenants of international lenders.
- A comprehensive interest rate risk analysis and management mechanism, which involves maintaining an established limit for floating-rate borrowing, to ensure minimal differences due to revaluation and reduced impacts on company's capital.

Risk Management Enhancement, Key Achievements in 2020

- During the COVID-19 pandemic, the company ensured the full continuity of its major and critical business processes, guided by the current Business Continuity Policy.
- To reduce the impact of the pandemic on the credit portfolio, the company created an exhaustive mechanism for credit portfolio management, which envisages:
  - Preliminary study of customer needs, identifying the level of impact of the pandemic on their income.
  - Offering additional financial resources for the purpose of quickly resuming income by using the refinancing instrument. This instrument was used only for healthy businesses with short-term working capital shortages.
  - Considering the effect of the pandemic, the loan review and approval process was updated.
- In accordance with National Bank recommendations, in order to maintain the financial sustainability of the company, an additional 5% of the portfolio was reserved for losses.
- In accordance with the recommendations of an external audit, a methodology was developed which reflects the impact of the pandemic on the volume of allowance for credit losses under IFRS-9.
- Improved control of cash-based and pawnshop operations.
- A sound methodology for portfolio stresstesting has been developed.

STRATEGIC REPORT

CORPORATE SOCIAL RESPONSIBILITY

Crystal's Environmental and Social Vision and Strategy

Crystal's commitment to defeating poverty in Georgia sustainably is the unifying focus behind our development vision.

- We are committed to using our financial instruments: starting from Crystal's engagement in E&S projects, business consulting and green financing, all the way to incorporating E&S considerations into our business model, corporate strategy, operational policy and financing practices.
- Our corporate strategy is built on the pursuit of a Triple Bottom Line: **People, Planet and Profit**. We strive to equally address the needs of our stakeholders, the planet we live on and the financial soundness of our customers, with no individual factor compromising the other two.
- Our strategic goals are organised around the triple bottom line, with individual targets assigned to each component. Progress towards these goals is measured using the impact assessment system in our ESG Framework.

Sustainability Standards

The Sustainable Development Goals	We consider the SDGs to be of critical relevance to our mission and values and have directly integrated six goals into our corporate strategy.
United Nations Women's Empowerment Principles (WEPs)	Crystal was one of the first five companies to support Women's Empowerment Principles (WEPs).
United Nations Global Compact	We have been a participant of the compact since 2011, and report our contributions to WEPS and the SDGs annually.
The International Finance Corporation's Performance Standards	We consider the IFC to hold the gold-standard for the management of E&S Risk, and thus strive to model our conduct on the values they outline.
United Kingdom Corporate Governance Code	Crystal annually reports its adherence to the Corporate Governance Code of the UK, implementing the "Comply or Disclose" Principle to ensure open assessment of its corporate governance.
SMART Campaign's Client Protection Principles	To guide our market-leading consumer protection conduct, we publicly endorse the SMART Campaign principles, which rewards companies that put its industry-accepted consumer protection standards into operation. Our own rigorous procedures are outlined in the Consumer Protection policy, in line with National Bank of Georgia requirements.

Corporate Values

RESPONSIBILITY	we are committed to avoiding the over-indebtedness of our customers. We are a market leader in our approach to the transparency of loan conditions.
TRANSPARENCY	Crystal's relationship with clients, staff, funders and with wider society is based on transparency, frankness and fairness.
PARTNERSHIP	long-term, equitable and customer-focused relationships.
ACCESS	our product design, lending standards, distribution channels and customer interfaces are all focused on access.
INNOVATION	innovation and constant improvement are how Crystal and our people work. We love technology and encourage creativity. Innovation is life!

Social Impact Measurement

Customer Preference and Perception Survey on the Effects of the Pandemic

In April 2020, Crystal conducted research to determine the impact of the crisis on Crystal customers' socio-economic conditions and, hence, their solvency. The survey was proactively used to determine the potential negative impacts on Crystal and to define effective response mechanisms that may help overcome the effects of the crisis.

To evaluate Crystal's social impact in 2020, we have conducted the annual Social Impact Measurement survey. Full account is provided in Annex 3.

Current Environmental and Social Projects and Funded Activities:

Green Finance

Crystal launched its green finance initiative in 2017 as part of a targeted investment by FMO. The main objective is to raise widespread public awareness of low carbon alternatives and to improve their accessibility.

One crucial component of the initiative is the promotion of Crystal's green product line. The awareness raising campaigns focus on driving the adoption of green and energy efficient alternatives, and promoting the financial and environmental benefits of their use.

Overall, by developing green products and increasing the share of green alternatives in its portfolio, Crystal is seeking to reduce emissions and any negative environmental impacts. With the help of the Energy Efficiency Centre and with the development of the "energy savings and CO_2 calculator", in 2020 the company was able to calculate its environmental footprint in the following way:

Energy savings

3,124,195 kWh

Spared CO_2 emissions

411 tonnes

In simpler terms, on average, one tree absorbs around 25 kg of CO2 per year. Crystal can therefore 'claim' to have done the job of around 16,400 trees.

Crystal's Youth Entrepreneurship School | USAID YES-Georgia

Crystal, in partnership with the Supporting Youth and Women Entrepreneurship in Georgia program funded by the United States Agency for International Development (USAID), started its Young Entrepreneur's School in 2016. The school aims at strengthening young people and developing their economic and entrepreneurial skills. The project seeks to enhance education amongst young people, aged between 16 and 28, and to facilitate their socio-economic empowerment, that they may become able to effectively manage their own finances.

The establishment of a small or medium enterprise, or self-employment, is no easy task, as such we frequently observe a lack of motivation in the youth embarking on entrepreneurship. To address this challenge it is necessary to encourage start-ups and apply a comprehensive approach, in particular: gathering and conveying the knowledge and advice needed to start an entrepreneurial business; sharing successful start-up stories; boosting motivation; providing access to finance and mentorship services. The Young Entrepreneurs School Program aims to respond to the challenges covered by the **UN Sustainable Development Goal #8**. For more information see Appendix 2 – "USAID YES-Georgia in numbers".

Online Hackathon "Contain COVID-19"

To help contain the global epidemic of COVID-19 and mitigate its social and economic impacts, Crystal has strengthened its support of young entrepreneurs by launching an online hackathon of business ideas in partnership with USAID YES-GEORGIA and the National Centre for Disease Control and Public Health (NCDC).

To participate in the Hackathon, young people were invited to present business projects offering effective and fast business solutions to any negative socio-economic consequences of COVID-19. Crystal allocated GEL **50,000** to finance business projects within the Hackathon.

STRATEGIC REPORT

Sponsorships

Future Agro Challenge 2020

The majority of Crystal's clients are engaged in agriculture. Hence, promoting the agro-sector and entrepreneurship is one of the most important strategic goals of the company. As such, the global Future Agro Challenge initiative aims to discover innovators and agropreneurs in agro-technologies, agri-tourism and agriculture worldwide, all within one strategic direction of support.

The Social Platform 1anoba

To alleviate the consequences of the COVID-19 crisis, Crystal provided financial support through the social platform 1anoba; from which, 50 IDP and socially vulnerable families were pleased with the amount donated (20 families in Tbilisi; 30 Families in Gori).

Scholarship for Kings Georgia winners

Crystal, as a supporter of female empowerment (SDG 5) and an active advocate of quality education (SDG 4), funded the Kings Georgia's summer school winners – two young girls – these schoolgirls were the winners of a nationwide English Language Competition.

Women's Economic Empowerment

Women Mentoring in Cooperation with UN Women Georgia

Crystal was 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 Crystal's female employees 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 careers and personal development. As a result, 107 female employees were promoted in Crystal in 2020.

Crystal has also raised the bar for garnering the best value from financial donations to women's communities and thereby achieving a greater social impact. Through a partnership with the TASO Foundation, Crystal implemented three community projects: potable water was provided to 25 households in the Tsageri municipality; a medical ambulatory centre was opened in the village of Guliani in Lanchkhuti; and a public library saw the light of day in Pipileti village in Racha.

Buzz Georgia

Buzz Georgia is a component of the USAID Supporting Youth and Women Entrepreneurship in Georgia (USAID YES-Georgia) program, and is being implemented by Crystal Fund in partnership with MFO Crystal (Co-Funder) and a sub-contracting organisation – Crystal Consulting LLC, which is implementing the Business Advisory Component of the program. In April 2020, Buzz Georgia launched its online TOT for 20 chosen MFO Crystal trainers (loan officers from different regions of Georgia). The actual training with female trainees started in June 2020. However, due to the pandemic and state regulations, all training has been conducted online.

For more information and the main highlights from Buzz Georgia, see Appendix 2 – "USAID YES-Georgia in numbers".

Awards and Recognitions

CSR Award 2020

At the annual Corporate Social Responsibility Awards 2020 within Business for Sustainable Development, hosted by the Global Compact Network Georgia, Crystal was announced the winner in the Sustainable Consumption and Production (SDG 12) category for its Green Financing project.

Green finance has been in place since 2017. By offering green alternatives to customers, the project aims to promote the financing of eco-friendly solutions, thereby contributing to a reduction of negative impacts on the environment.

The CSR Award judges were comprised of international and local experts, distinguished for their exceptional work in advancing Sustainable Development Goals. The Corporate Social Responsibility Awards 2020, successfully held for a third year in a row, celebrates Georgian-based businesses for exceptional projects and initiatives in the field of corporate social responsibility.

Business for Gender Equality 2020

From 2016, the Millennium Foundation conducts annual competition “Business for Gender Equality” aimed at promoting the Women’s Empowerment Principles (WEPs), developed by the UN Women and the UN Global Compact, in Georgia.

More than 200 companies have participated in the competition over the last four years. The winners include banks, universities, insurance and telecommunication companies, hotel and construction industry representatives, wine producers and organizations operating in the fields of technology and energy.

Crystal took the first place in the competition “Business for Gender Equality 2020”. The completion was organized in partnership with the UN Women and the Federation of Business Leaders “Women for Tomorrow”. Participants of the competition included companies, which are operating in Georgia and promoting development and empowerment of female employees and customers in their activities.

PEOPLE IN OUR ORGANISATION

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

Certain key information regarding crystal employees is provided below:

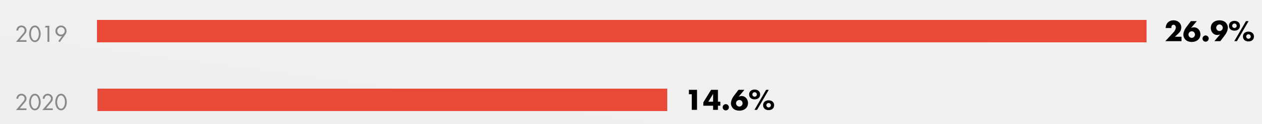
Years with Crystal	
0-1 year	11.6%
1-5 years	59.5%
5-10 years	24.2%
Over 10 years	4.7%

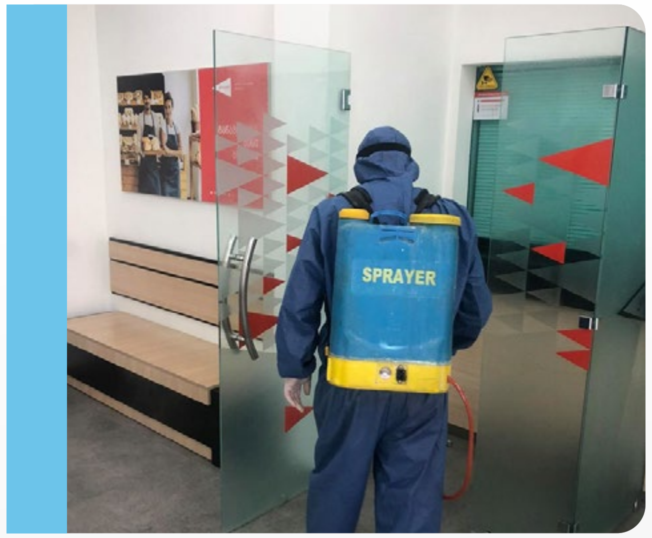
Breakdown of Employees by Age	
<20	0.2%
20-30	32.6%
30-40	53.7%
40-50	10.1%
50-60	2.4%
>60	1.0%

	Male	Female
All staff members	33.3%	66.7%
Top management	83.0%	17.0%
Senior management	38.0%	62.0%
Mid-level management	67.0%	33.0%

Number of Employees Hired in 2020	
All	183
Female %	78%
Male %	22%

Annual Staff Turnover





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 the pandemic control scenario.

Following this plan, the company launched measures to prevent the spread of COVID-19, which are moreover in full compliance with the recommendations issued by WHO and the Georgian government. The purpose of such preventive measures was to ensure a safe work environment, and to protect both our personnel and our customers as best as possible.

- During the state of emergency, where possible, staff members switched to remote work. This notably affected the head office, where 95% of staff now work remotely, as well as the branches; with the aim of maintaining business continuity, while also 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. In addition, employee work hours were reduced.
- In accordance with the requirements of the Personal Data Protection Law, employees within certain risk groups were identified and instructed to self-isolate.
- Considering the increased usage of call centres during the state of emergency, the management considered their enhancement a priority and thus carried out a full mobilisation to provide all the necessary information to its users remotely and continuously. Call-centre employees also worked remotely, from home.
- Internal working and urgent business meetings and interviews with job applicants were likewise held remotely.
- Online training courses were conducted in various fields so that the company would be prepared to face the challenges of the crisis.
- Our offices were regularly disinfected, in compliance with the recommendations issued by the Ministry of Health.
- All members of staff who worked in the branches were fully equipped with personal protective equipment.
- Rules and recommendations were developed and implemented in the office during the pandemic, which also became mandatory for the security staff and customers to keep staff members properly informed and raise awareness, a news portal was created to upload the recommendations and instructions issued by the Ministry of Health, alongside the contact details and a hotline for the Ministry of Health and the Disease Control Centre, as well as the details of those designated responsible within the company, to provide support for staff members.
- Guidelines for preventive measures, including all important issues, were formulated and shared regularly with the staff.
- To promote remote work, webinars on a variety of pressing issues were frequently held with staff members.

It is worth mentioning that, during this difficult business period, Crystal fully retained its staff and salaries were not reduced. Furthermore, all benefits effective for company employees prior to the emergency were also retained.

Equal Employment Opportunities

The Company offers equal employment opportunities to every employee and job applicant, irrespective of race, gender, age, citizenship, place of birth or residence, social status, religion or belief, national, ethnic or social origin, 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 and training. 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 since then the company has embraced an entirely new HR management system, which significantly boosts the effectiveness of the administration of HR processes, thus saving financial as well as human resources.

HR Ombudsman

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 this aim. Consequently, several important initiatives and projects have been implemented. One such innovation is the creation of Crystal's HR Ombudsman which 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.

Crystal is the first organisation in Georgia to have created such a system. Under its establishment, Crystal is reemphasising that its staff members, and protection of their rights, are at the company's very core.

Within HR compliance, important projects were launched and implemented in 2020, such as:

- Developing mechanisms for the protection of employee rights.
- Introducing amendments to labour agreements and internal regulations in accordance with amendments to the Labour Code.
- Studying and reviewing employee claims.
- In order to raise awareness and the qualifications of the organisation's employees, a special project – entitled Employee rights, obligations and responsibilities in labour relations – was implemented. As part of the project, various target groups attended thematic webinars, within which employees were provided with information on the terms of labour agreements and internal regulations, disciplinary proceedings, the impact of internal rules on labour relations, on antidiscrimination and the rights protection mechanisms of the organisation. These topics were reviewed in discussion format, which therefore notably strengthens labour relations and helps employees to better understand, and efficiently implement, their duties and functions.

STRATEGIC REPORT

Crystal Academy

Crystal Academy facilitates the induction of employees, as well as their professional training and retraining. Despite the pandemic, digitalisation of the entire training process took place in the academy, where training activities were carried out across various channels – Crystal Academy's remote training platform, Microsoft Teams and Zoom – thus providing an opportunity for employees to acquire new skills remotely.

- A manual was developed to provide special support for employees working remotely during the pandemic to enable remote work at the company and
- assist employees in developing the necessary skills.

As part of the UN Global Compact (UNGC) Women's Empowerment Principles, one component of which is raising employee awareness on discrimination and sexual harassment, the Ombudsman's Office and UN Women carried out remote courses, based on a modular principle, for raising the awareness of senior and mid-level management on the issues of sexual harassment, prevention and gender equality.

In regards to employee training, various activities were developed and implemented throughout 2020, within which the following training activities have been conducted:

Activity	Group	Number of Employees
Thematic webinar	19	1,287
Remote training	11	950
Training (including online)	38	447

Remote Training Platform

To increase accessibility of training exercises and enhance involvement, a Remote Training Platform was established for Crystal Academy (https://academy.crystal.ge). The platform provides an opportunity for company employees to review training materials whenever and wherever they wish, to complete various exercises and to gain new knowledge and skills. The Remote Training Platform has accumulated various training courses, materials and video tutorials covering years of experience, making the training process more convenient and effective.

During the pandemic, the platform played an important part in the continuous professional development of Crystal employees.

Internships at Crystal

To create opportunities for lifelong learning and education, the company has developed a two-stage internship system (orientation and professional internships). The system seeks to promote professional and career development for the youth in the financial sector and provides those interested with an opportunity to gain valuable financial experience.

Interns can serve positions in all Crystal branches, thus facilitating accessible education for people in the regions. During an internship, the interns are counselled by specially trained mentors who share their relevant knowledge and experience, while creating a motivated environment so that any applicant can successfully complete an internship.

To better understand business processes, special training manuals, based on practical examples and with the respective testing software, have been created for the interns. These manuals assist the development of their practical competences in a relatively short period of time.

To increase youth involvement in the internship process, memorandums of understanding have been signed with various universities and vocational educational institutions, enabling students to gain relevant practical experience.

Goal Setting and Performance Appraisal (GSPA) System

In 2020, we developed and implemented our Goal Setting and Performance Appraisal System. The core objectives for implementing the new system were: (a) the creation of an open, transparent and fair environment for employees, which defines goals, plans and monitors performance within the scope of their functions and responsibilities, all in line with the company's goals; (b) the creation of a quarterly goal setting culture that, in a rapidly changing business environment, may allow management and employees to set goals / objectives / KPI's in a more agile manner (which further helps ensure the implementation of the company's strategic goals and improves business results); (c) assess and measure the contribution of each employee within the operations / development of the company, contributing to continuous performance improvement; (d) identify employee strengths and weaknesses, define their needs for development, and create a basis for career advancement; (e) support and assist business communications and offer constructive feedback amongst employees and managers; and (f) develop and implement a transparent and fair system for good performance management (salary increases and motivation schemes, including financial and non-financial incentives and career advancement), as well as a clear and fair system for managing performance.

Internal Communications

Crystal was one of the first companies, only days after the onset of the pandemic, to effectively switch its employees to a remote working mode, and to manage its processes while equally providing services to its customers without delay.

During this period, the management paid particular attention to, appropriate, internal corporate communications. This included the sound operation of our communications channels, as well as the unhindered provision of all necessary information for staff and receiving relevant feedback. As a result, despite most of the staff working partially remotely during the entire year, the team received full information regarding important processes and updates from within the organisation. This was demonstrated once more from the employee survey, in which 97% of those surveyed considered themselves informed and only 3% to be partially informed.

Throughout the period of remote work, the company management had to adapt various 'traditional' rules to make their teams as effective and productive as possible. However, the realities also highlighted entirely new needs, such as the necessity to form new skills, the demand for time management and effective communications, amongst other aspects.

Additionally, the practice of sharing new information using internal communication channels, which also provide key information to staff, has been carried out intensively within the company. Equally, the implementation of Office 365 and internal corporate communication standards, systems and practices have significantly improved the working process, moreover they have reduced and saved time as well as human resources.

Personnel Engagement

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

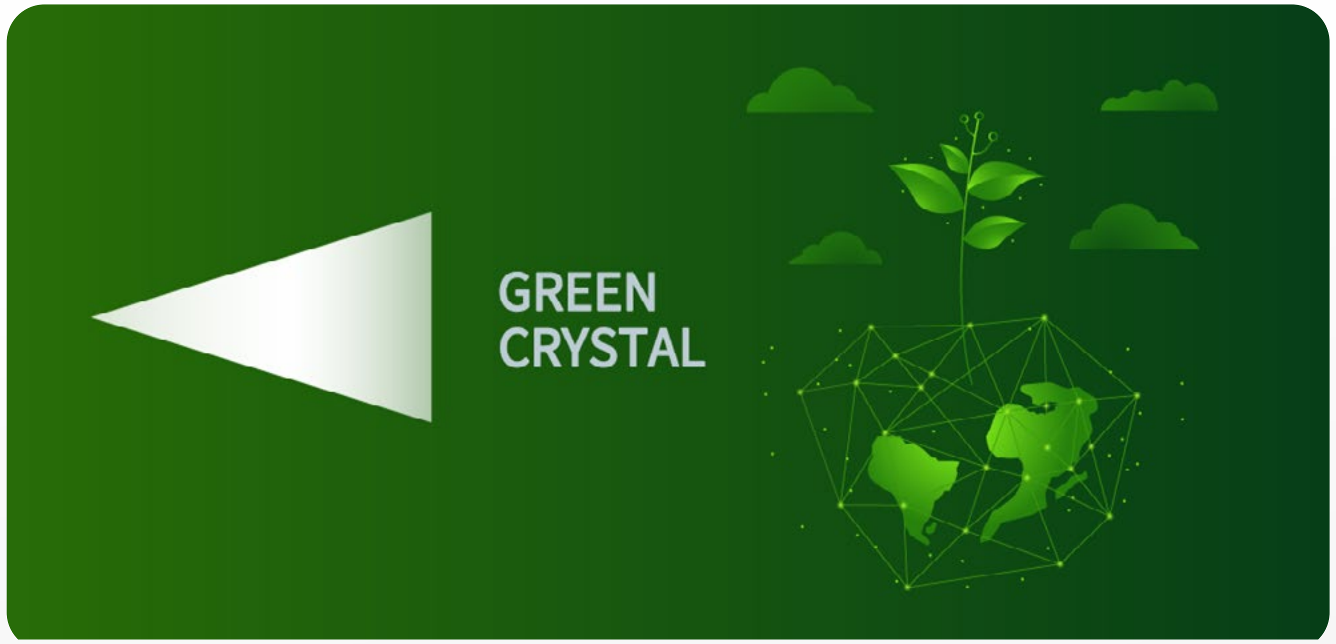
To evaluate the efficiency of communication, under the management and the business continuity team, the company organised several employee surveys last year taking account of recommendations from the surveys.

To further help employees pursue common interests, while growing closer and sharing information amongst one another, YAMMER, the internal social network, supports thematic groups, comprising almost all employees. Divided by various topics, these groups thus bring together employees with common interests.

Another indication of our social responsibility, and employees caring for each other, is use of the special platform *Damemgzavre* (Take a Lift), which allows members of staff to carshare to avoid using public transport as much as possible thus reducing the risk of infection.

Promoting a Healthy Lifestyle

The promotion of a healthy lifestyle is still a priority for Crystal. While the company has a long tradition involving sporting events, championships, and offering discounts in sports and fitness centres, considering the global pandemic, the company refrained from such activities. Nevertheless, several events, projects and activities have already been planned and will resume as soon as the pandemic is over.



Digital Products

- Crystal One – the online credit platform was developed. In 2020, the project team created an online platform to simplify loan or instalment loan application remotely without visiting a branch. Within the Crystal One platform, a client cabinet was created, from which clients can access current loan information, loan contracts, which they can sign electronically. Creating the cabinet greatly facilitated updates of repayment schedules during the pandemic.
- DM – the decision-making system was updated in accordance with updated NBG regulations. This enabled the company to reduce time for loan applications decisions.

Alternative Sales

During the year, development of our innovative auto loan project continued. Sales were carried out under a pilot mode from one service centre. It is noteworthy that the service centre was fully affected by both lockdowns and ceased operations for over three months across the year. Nonetheless, the main project parameters were exceeded.

- In 2020, the Alternative Sales and Innovative Products Unit had a particularly productive year. During the pandemic, Crystal's digital products simplified the lives of many of our clients; with our online instalment service receiving recognition amongst online customers. As a result, the online instalments portfolio increased by 312%.
- Crystal gained an overwhelming advantage on the online instalment service market, owning 12-13% of the market as of December 2020, among the five major competitors.

Green Lending

In 2020, the Green Portfolio increased by GEL 3 million to GEL 10.7 million reaching 10,000 customers.

Green House, an educational project, was approved as part of the technical assistance from the Green for Growth Fund (GGF). This development aims to spread information and raise awareness of green products among the population.

Crystal joined a widescale project financed by the Green Climate Fund (GCF) in Georgia – Enabling the Implementation of Forest Sector Reform in Georgia to Reduce GHG Emissions from Forest Degradation. Crystal's role is to provide loans for energy efficient woodstoves and alternative fuel with special emphasis on female customers.

INFORMATION TECHNOLOGIES

The company managed to successfully respond to the greatest challenge of 2020, the pandemic, and within information technology it achieved its goals and development plan by maintaining business continuity. The company delivered considerable changes within its digital transformation, its working style and the adaptation of its systems and processes in response to the pandemic.

Within a short period, employees were transferred to remote work. After just days of preparation, head office staff were equipped with all the technical means and software required for remote work. The company also put into effect a Business Continuity Plan, without disruption, and quickly carried out technical work to adapt business processes to the various challenges of the pandemic. Consequently, Crystal was one of the first organisations in Georgia to move to secure remote work.

The processes, controls and solutions previously implemented (as part of the successful ISO 27001 certification in 2019) enabled us to protect our high-level security information systems, which ensured the unhindered and safe work of our staff throughout the year. Further changes were also applied to support our clients in adapting to the pandemic. For which, our systems were modified and a platform for postponing client payments was introduced, which was used by thousands of clients.

A remote sales model was developed, which provided our sales staff with all the required technical means (like the loan platform and corporate telephone software) for serving clients from a remote location of their choice and for carrying out various operations, including approving and issuing loans.

A loan moratorium was implemented, enabling our clients to defer loan payments for up to three months.

Despite changing priorities due to the pandemic, the company implemented new solutions and systems. Particularly important are its platforms, such as Leasing Core System, Money Transferring Module and Internal Transferring Platform, and SMS Module. Further platforms were also developed and improved: a Lending Platform for small loans was launched; Decision-Making (DM) Module was improved; and HRMS and ERP systems were upgraded with various features added.

A 3 year digital transformation strategy was established, including company plans, challenges, visions and all the projects and processes necessary for digital transformation. Moreover, the business strategy was analysed and the information technology strategy adapted.

The bank transformation project and core system change commenced with the study of market products and an analysis of timing, budget and further requirements.

The company continued to develop and revise its processes and procedures based on international standards. The relevant standards were enhanced and implemented across all areas.

Our 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 aspects of our 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.

IT Operations

The company's IT team managed to launch the Business Continuity Plan in the minimum required time, and to move its human resources, required for remote working, without delay. While to appropriately serve clients, certain sales and front office staff were transferred to remote working.

To ensure stability, daily operations, business continuity, company growth and improve project support, the company also implemented new server infrastructure, projects and other processes necessary for IT development. For instance, modifications and enhancements to the data centre were fulfilled which helped maintain the stable and sustained development of the company.

Based on the critical services continuity plan, several tests of business continuity were carried out; server equipment was updated and server infrastructure was virtualised and optimised.

Finally, for security purposes, active monitoring and controls were performed to ensure a safe and sustainable infrastructure and the protection of IT operations.

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 based development. Dependent on demands, the Waterfall and Agile methodologies are employed to meet the needs and specifics of each project. Within the Agile methodology, processes in a number of areas have been successfully enhanced and targets reached.

During the year, the small project management team completed around 30 projects of various scales and levels of importance.

It is vital to also highlight such successful projects as loan defferal, the introduction of the Leasing Core System, the Money transfer Module, the New SMS Module, the ERP and the enhancement and development of the HRMS. Furthermore, the loan processing and scoring system, the Decision Management System, and the Problem Loan Management module were each improved.

Achievements in Information System Security

Information security played a particularly important part in enabling business continuity during the pandemic. All systems, decisions and the software implemented within the company were in compliance with the maximum information security standards and safety norms. As such, compliance, control and revision of the standards (adopted as part of ISO 27001 certification) were maintained and continued. Equally, the control, revision and improvement of processes and policies were fully completed. Despite the increased level of hazard, the systems security teams managed to implement work, projects and controls at a consistently high-level.

Software Development

This unit completed significant projects in the enhancement and development of its programs; largely focusing on the development of the loan platform, loan processing, the decision-making system, the development and integration of Akido (our digital platform), and a variety of other services

Further to which, new loan processing products were included to automate and accelerate the issuing of loans. Moreover, an online platform for clients was added, offering the possibility to apply for a loan online, to see client history and to validate loans electronically. This product became particularly useful for clients during the pandemic. On top of which, a business intelligence system was also developed and enhanced.

Finally, critical services and software applications were upgraded and, when appropriate, brought in line with regulations. Architectural changes also took place and part of the services were migrated onto the new architecture.

Software Quality Assurance

The goal of SQA 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 for testing, improved the testing process, and offered further opportunities to properly analyse, plan and automate the procedure.

Significant steps were taken towards automated testing. The company introduced a basis for automated testing, training was organised and pilot automation was implemented for several projects. In the future, expanded and tailored automation is also planned for various projects. Automation of the testing process will allow for significant timesaving and the carrying out of large-scale operations in automated modes. This will improve quality while reducing the number of possible errors and the time required for testing projects.

ANALYTICAL CAPABILITY

The last year was significant for the development of analytical capability.

2020 also stood out because of the implementation of new informational products within business intelligence. In particular, the following products were developed:

- **Credit portfolio analysis via a GIS map** – this informational product offers the possibility for fast and effective evaluation of a credit portfolio and seeing the distribution of clients across the country.
- **Planning loan portfolio** – this product delivers planning opportunities by issuing a loan, payment of the principal and statistical prognosis of the portfolio, while also comparing the planned and actual indicators in real time.

Active work was initiated in 2020 for the development of informational products for financial and non-credit operations. The final results of these effort will be observable by the end of 2021.

GOVERNANCE STATEMENT

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 Integrated Report, including 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 2020, 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
Chair 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.

CHAIR

The roles of the Board and of the Chair are clearly distinguished from the responsibilities of the management team. The Chair 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 Chair of the Supervisory Board (Georgia), who is a financier, entrepreneur and the co-founder of Crystal.[1] He serves as Chair of the Board of Crystal Fund and participates in the governance of several nonprofit institutions. The Chair 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 Chair is appointed by and accountable to the shareholders. The performance of the Chair is assessed by the company shareholders, based on his performance assessment carried out by SB. Upon the recommendation of the board, shareholders approve the Chair's remuneration and any changes thereof.

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).

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 Chair of the SB, Nikoloz Loladze (Georgia), is an experienced corporate director, an independent member of the SB, who alternates as Chair 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 2020, the SB met once in-person and twelve times remotely. The number of each SB committee meetings in 2020:

Internal Audit Committee	4
ALCO (Assets and Liabilities) Committee	16
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, largescale 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 Chair 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.

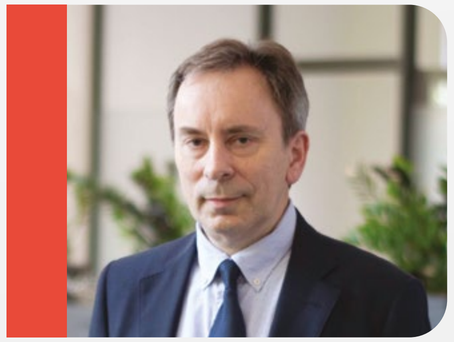
The aim of effective corporate governance is to ensure the Crystal board maintains its customer-centric and people-oriented approach. Thusly, the board commissions customer satisfaction and staff engagement surveys. Finally, the social committee reviews on an annual basis its social impact assessment.

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.

SUPERVISORY BOARD MEMBERS

Archil Bakuradze
Chair – holds the position of Chair of the JSC MFO Crystal Supervisory Board and leads the company's Assets and Liabilities Committee. Archil served as Chair of the Georgian Microfinance Association and is currently a member of its board. He is a Chair of the Board of Crystal Fund and serves on the Boards of several non-profit organisations. Through the Chevening Scholarship, from the UK Foreign and Commonwealth Office, Archil received an MBA from Lancaster University's Management School (2004). He is a fellow of the John Smith Trust (2000) and recipient of the international van Heuven Goedhart award from the Dutch Refugee Foundation, Stichting Vluchteling (2003).

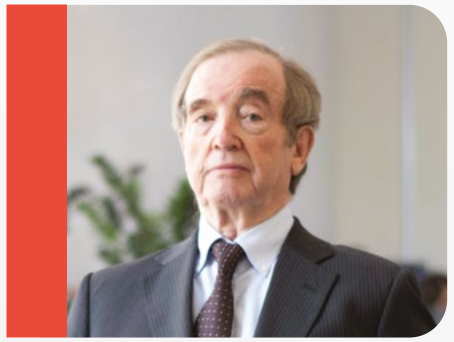
Nikoloz Loladze
Deputy Chair – the Deputy Chair heads the Risk Committee, holding over a decade of experience in economic development issues. Nikoloz is a founder and board member of several prominent businesses and non-profit organisations in Georgia. In his capacity as a governance expert, Nikoloz still acts as an advisor and board member for 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), the 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 Chair of the Strategy and Innovations Committee. He serves as Regional Director for the EECA region and Director of private equity for Incofin. 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 (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 further corporate financial strategy in France.

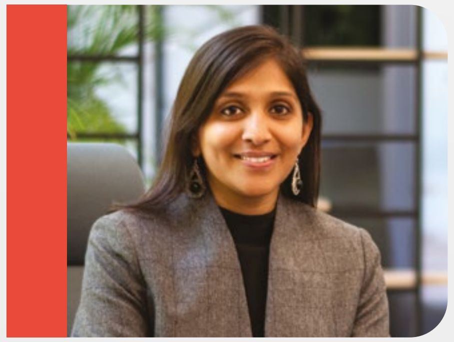
Lilit Gharayan
Independent Member – is a financier and has been a member of Crystal's Supervisory Board since July 2018. She has extensive experience in leadership as well as holding a consultant position in financial management, risk management and operational management. Since 2015, Mrs Gharayan has 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 MA from Yerevan State University. Mrs Gharayan is a graduate of the ProCredit Management Academy and is a member of ACCA.

Aleem Remtula
Member – is a partner and Head of Private Equity for Developing World Markets (DWM), and Mr Remtula has been a Board member and shareholder representative for DWM 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 a Bachelor's degree in Economics and Finance from Princeton University.



Keith Young MBE
Member – is the Chair of the HR, Compensation and Remuneration Committee. He is an entrepreneur with considerable expertise in the industries of publishing, communications and new technologies. Keith has been the Executive Chair of cScape Group plc and on the Board of Group NBT plc, which he co-founded. He holds an Economics degree from the London School of Economics, and also has a broad background of investment and management in companies from 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 has supported Incofin IM's Global Private Equity Operations since 2018, based out of their Antwerp office. He is a member of the Incofin IM AIFM equity investment committee. Michaël has over 16 years' experience in private equity, strategy consulting and in the consumer goods industry. He worked with Procter & Gamble as a financial analyst for two years; was a consultant with The Boston Consulting Group (BCG) for four years; and an investment manager for close to four years at Delta Partners Capital. In his most recent role before joining Incofin, for three years he was a project manager with Roland Berger, a strategy consultant. Michaël holds Master of Science (Electronics Engineering) and Bachelor of Science (Economics) degrees from KU Leuven, Belgium. He has also obtained the Level 1 CFA.



Suma Swaminathan
Alternative Member – Vice President of Private Equity at Developing World Markets (DWM), Suma Swaminathan has been an alternative Board member since 2020 as 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 or 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 within the handloom industry in India. She holds a Bachelor's degree in Electrical Engineering from Osmania University in Hyderabad, India.

MANAGEMENT TEAM (Board of Directors)

Ilia Revia
Chief Executive Officer – is the Chief Executive Officer of MFO Crystal. He is an accomplished manager with extensive experience leading complex 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. Therafter, he was appointed MFO Crystal's CEO and has been in the role since June 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, alongside 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. Prior to which, he managed the finance of CHCA, from April 1997 to July 2004. Mr Bendeliani holds a degree in Economics from Ivane Javakhishvili Tbilisi State University. He also 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, from 2006-2010, as Head of Retail and Small Business Development at VTB Bank Georgia. From 2010-2015, she was Head of the 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 her two-year role as Commercial Director for the Lisi Green Urban Project. She was appointed Crystal's Deputy Chief Business Officer in 2019, and Chief Business Officer in May 2020. Melania holds a Master's degree in Management from VTB Bank Corporate University and 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. From 2001, he worked in various positions in both the private and public sectors, before joining Crystal in 2006. Mr Chitaishvili holds an MA in Public Administration from the Georgian Institute of Public Affairs and an MA in Law from Kutaisi Tsereteli University. He has additionally 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. Prior to which, he was the CIO of the Adjara Group. Mr Tsitskishvili also worked in leadership positions for Aviator Ltd. and Bank Republic, and 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, and a Master's degree in Computer Science from Ivane Javakhishvili Tbilisi State University, within the faculty of applied mathematics and computer sciences.

Kakha Gabeskiria
CEO, JSC Crystal Leasing – joined Crystal team in 2009, holding various executive positions such as Chief Credit Officer, Chief Operations Officer and Chief Business Officer. Starting from 2020 he was appointed on CEO position of Crystal Leasing a subsidiary of MFO Crystal. Mr. Gabeskiria has 20 years of experience in MSME sector holding manager positions at Procredit Bank. He holds a BA in Economics from the Georgian Institute of Sub-tropic Agriculture. In addition, he is certified in Project Management, Business Analyses, HR Management, Product Development, Credit Portfolio Planning and Management, Credit and Operating Risk Management.

Giorgi Janelidze
CEO, LLC Crystal Consulting – is the Chief Executive Officer of Crystal Consulting. During the last nine years, he has been working in MFO Crystal on different positions and currently is developing as an executive in business consulting. Since 2008 Giorgi has been working in non-governmental organizations and the private sector. He has a background in Microfinance, Marketing, IT, Project Management, and the MSE sector. Giorgi has scaled several startups from business idea to final product. By education, he is an IT specialist and certified Project Manager & Digital Marketologist. Giorgi holds a master's degree in IT&Economics and currently progressing with PhD.

COMMITTEE REPORTS

The Assets and Liability Committee (ALCO)

The ALCO, which includes its Chair (the Chair of ALCO), representative investor members of the SB, the CEO, the CFO and the CBO, convenes 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 mismatches, interest rates, capital adequacy and liquidity risks. The Supervisory Board also examines reports related to macro-economic indicators, market share analysis and business plan implementation. A list of indicators from the annual budget is monitored by the ALCO and may be revised by the Supervisory Board, if required.

Sessions conducted in 2020: 16

Key issues discussed and resolved:

- Financial results;
- Financial plans;
- Budget parameters;
- Portfolio quality;
- Credit facility and funding;
- Post crises Credit Policy;

The 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 and social responsibility, consumer protection and responsible lending practices, as well as to monitor the respective implementation. The Committee therefore helps the management and Supervisory Board focus on environmental and social responsibility.

Sessions conducted in 2020: 4

Key issues discussed and resolved:

- Ongoing projects and activities;
- Environmental impact assessment;
- ESG review and recommendations;
- Sustainability Policy;
- Code of Ethics;

The HR, Compensation and Remuneration Committee

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

Sessions conducted in 2020: 4

Key issues discussed and resolved:

- Performance appraisal;
- Turnover report;
- Organisational development;
- CO assessment outcomes;
- Structural changes;
- Report by HR Ombudsman;
- Employee support and preventive measures during the Covid-19 pandemic;

The Internal Audit Committee

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

Sessions conducted in 2020: 4

Key issues discussed and resolved:

- Audit results;
- Status updates for deficiencies identified through audit processes;

The Risk Committee

The Risk Committee oversees potential risks in their entirety, excluding those covered by the ALCO Committee. The objective of the Committee is to study existing credit and operational risks within the organisation, to inform the Board of any strategic risks faced by the company, and to provide recommendations for the integration or improvement of systems and processes managing and reducing risks. The Committee is a consultative body that is not involved in decision-making, however it reviews and identifies various risk-related issues, which are to be further considered by the Management Team and Chief Officers. Additionally, the Risk Committee provides the Board with recommendations on managing and mitigating risks.

Sessions conducted in 2020: 4

Key issues discussed and resolved:

- Risk management results including operational risks and controlling;
- AML & Compliance;
- Risk Management Policy;
- Fraud Prevention Policy;
- Operational Risk Management Policy;

The Strategy, Data and Innovations Committee

The objective of the Committee is to ensure the implementation of Crystal's strategy. The Committee therefore enables the management and the Supervisory Board to focus on strategic analysis and decision-making processes. The Committee also supervises and implements the company's strategy. The scope of the Committee also includes supervision of innovative projects and the implementation of data transformation strategies.

Sessions conducted in 2020: 4

Key issues discussed and resolved:

- Development of LLC "Crystal Consulting";
- Development of "Crystal Go";
- Development and results of MFSG "Kerketi";
- Digitalization and digital landscape;
- Banking transformation;
- Profitability analyses;

FINANCIAL STATEMENTS

JSC MICROFINANCE ORGANIZATION CRYSTAL

Consolidated and Separate Financial Statements, Management Report and Independent Auditor's Report For the Year Ended December 31, 2020

Management is responsible for the preparation of the consolidated and separate financial statements that present fairly the consolidated and separate financial position of Joint Stock Company Microfinance Organization Crystal (the "Company") and its subsidiary Crystal Consulting LLC (collectively - the "Group") as at December 31, 2020the 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 and separate 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 consistence with the consolidated and separate 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 and separate 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 and separate financial statements for the year ended December 31, 2020 were authorized for issue on July 6, 2021 by the Board of Directors of the Group.

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer
July 6, 2021
Tbilisi, Georgia

Independent Auditor's Report

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

Opinion

We have audited the consolidated and separate financial statements of Joint Stock Company Microfinance Organization Crystal (the "Company") and its subsidiary (the "Group"), which comprise the consolidated and separate statements of financial position as at 31 December 2020, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Company as at 31 December 2020, and their consolidated and separate financial performance and their consolidated and separate 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 and Separate Financial Statements* section of our report. We are independent of the Group and the Company 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 and separate 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.

Other Information

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

Our opinion on the consolidated and separate 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 the consolidated and separate financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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 and Separate Financial Statements

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 and separate 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 and separate 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 and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate 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 or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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.

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 the 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 and Company's policies, procedures, methodologies and reported information with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, as well as recalculations, comparisons and reconciliations of numeric values and other information.

In our opinion:

- The management report for the year ended December 31, 2020 is prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing;
- The management report for the year ended December 31, 2020 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, 2020 is consistent, in all material respects, with the consolidated and separate financial statements for the year ended December 31, 2020.

Srbuhi Hakobyan

July 6, 2021
Tbilisi, Georgia

FOR THE YEAR ENDED 31 DECEMBER 2020 (IN THOUSANDS OF GEORGIAN LARI)

	Notes	2020	2019
Interest income	5	80,948	73,997
Interest expense	5	(29,236)	(22,634)
Net interest income before impairment losses on interest bearing assets		**51,712**	**51,363**
Impairment losses on interest bearing assets	12,13,17	(5,300)	(8,680)
Net interest income		**46,412**	**42,683**
Net Fee and commission (expense) / income[1]	6	(1,690)	888
Net gain on financial assets and liabilities at fair value through profit or loss	11	13,699	2,133
Net foreign exchange loss		(20,050)	(6,805)
Net loan modification loss	3	(2,601)	-
Other income		851	230
Net non-interest expenses		**(9,791)**	**(3,554)**
Operating income		**36,621**	**39,129**
Personnel expenses	7	(22,567)	(21,808)
Depreciation and amortization expenses	14,15,16	(4,942)	(4,651)
Other operating expenses	8	(9,181)	(12,028)
Profit before income tax		**(69)**	**642**
Income tax expense	9	(783)	(966)
Net profit for the year		**(852)**	**(324)**
Other comprehensive income		-	-
Total comprehensive income for the year		**(852)**	**(324)**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer
July 6, 2021
Tbilisi, Georgia

The notes on pages 95-161 form an integral part of these consolidated and separate financial statements.

1 The Group has changed presentation of commission paid to JSC Mobile Finance Service - Georgia in an amount of GEL 431 thousand from Other operating expenses to Net Fee and commission (expense) / income for the year 2019.

	Notes	2020	2019
Interest income	5	80,948	73,997
Interest expense	5	(29,236)	(22,634)
Net interest income before impairment losses on interest bearing assets		**51,712**	**51,363**
Impairment losses on interest bearing assets	12,13,17	(5,300)	(8,680)
Net interest income		**46,412**	**42,683**
Net Fee and commission (expense) / income [2]	6	(1,690)	888
Net gain on financial assets and liabilities at fair value through profit or loss	11	13,699	2,133
Net foreign exchange loss		(20,050)	(6,805)
Net loan modification loss	3	(2,601)	-
Other income		685	228
Net non-interest expenses		**(9,957)**	**(3,556)**
Operating income		**36,455**	**39,127**
Personnel expenses	7	(22,520)	(21,703)
Depreciation and amortization expenses	14,15,16	(4,942)	(4,651)
Other operating expenses	8	(9,181)	(12,022)
Profit before income tax		**(188)**	**751**
Income tax expense	9	(783)	(966)
Net profit for the year		**(971)**	**(215)**
Other comprehensive income		-	-
Total comprehensive income for the year		**(971)**	**(215)**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer
July 6, 2021
Tbilisi, Georgia

The notes on pages 95-161 form an integral part of these consolidated and separate financial statements.

2 The Group has changed presentation of commission paid to JSC Mobile Finance Service - Georgia in an amount of GEL 431 thousand from Other operating expenses to Net Fee and commission (expense) / income for the year 2019.

(IN THOUSANDS OF GEORGIAN LARI)

	Notes	December 31, 2020	December 31, 2019
ASSETS			
Cash and cash equivalents	10	17,884	20,106
Financial assets at fair value through profit or loss	11	2,509	-
Loans to customers	12	315,880	297,211
Net investments in leases	13	2,246	-
Property and equipment	14	5,349	5,602
Right-of-use assets	15	11,309	3,577
Intangible assets	16	2,611	2,564
Current income tax asset		945	469
Deferred tax assets	9	2,628	3,411
Other assets	17	4,713	4,155
Total assets		**366,074**	**337,095**
LIABILITIES			
Financial liabilities at fair value through profit or loss	11	-	4,292
Borrowed funds	18	279,968	253,983
Debt securities issued	19	12,725	12,667
Lease liability	17	12,522	3,914
Dividends payable	21	999	767
Other liabilities	20	1,849	1,610
Total liabilities		**308,063**	**277,233**
EQUITY			
Share capital	21	3,635	3,635
Share premium	21	22,110	22,110
Retained earnings		32,266	34,117
Total equity		**58,011**	**59,862**
Total liabilities and equity		**366,074**	**337,095**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer
July 6, 2021
Tbilisi, Georgia

The notes on pages 95-161 form an integral part of these consolidated and separate financial statements.

	Notes	December 31, 2020	December 31, 2019
ASSETS			
Cash and cash equivalents	10	17,877	20,103
Financial assets at fair value through profit or loss	11	2,509	-
Loans to customers	12	315,880	297,211
Net investments in leases	13	2,246	-
Property and equipment	14	5,342	5,602
Right-of-use assets	15	11,309	3,577
Intangible assets	16	2,611	2,564
Current income tax asset		945	469
Deferred tax assets	9	2,628	3,411
Other assets	17	4,598	4,156
Investment in a subsidiary		246	240
Total assets		**366,191**	**337,333**
LIABILITIES			
Financial liabilities at fair value through profit or loss	11	-	4,292
Borrowed funds	18	279,968	253,983
Debt securities issued	19	12,725	12,667
Lease liability	15	12,522	3,914
Dividends payable	21	999	767
Other liabilities	20	1,847	1,610
Total liabilities		**308,061**	**277,233**
EQUITY			
Share capital	21	3,635	3,635
Share premium	21	22,110	22,110
Retained earnings		32,385	34,355
Total equity		**58,130**	**60,100**
Total liabilities and equity		**366,191**	**337,333**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer
July 6, 2021
Tbilisi, Georgia

The notes on pages 95-161 form an integral part of these consolidated and separate financial statements.

	Notes	Share capital	Share premium	Retained earnings	Total
January 1, 2019		**3,061**	**12,718**	**35,208**	**50,987**
Total comprehensive loss for the year		-	-	(324)	(324)
Issue of preferred shares	21	574	9,392	-	9,966
Dividends declared	21	-	-	(767)	(767)
December 31, 2019		**3,635**	**22,110**	**34,117**	**59,862**
Total comprehensive loss for the year		-	-	(852)	(852)
Dividends declared	21	-	-	(999)	(999)
December 31, 2020		**3,635**	**22,110**	**32,266**	**58,011**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer
July 6, 2021
Tbilisi, Georgia

The notes on pages 95-161 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020 (IN THOUSANDS OF GEORGIAN LARI)

	Notes	Share capital	Share premium	Retained earnings	Total
January 1, 2019		**3,061**	**12,718**	**35,337**	**51,116**
Total comprehensive loss for the year		-	-	(215)	(215)
Issue of preferred shares	21	574	9,392	-	9,966
Dividends declared	21	-	-	(767)	(767)
December 31, 2019		**3,635**	**22,110**	**34,355**	**60,100**
Total comprehensive loss for the year		-	-	(971)	(971)
Dividends declared	21	-	-	(999)	(999)
December 31, 2020		**3,635**	**22,110**	**32,385**	**58,130**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer
July 6, 2021
Tbilisi, Georgia

The notes on pages 95-161 form an integral part of these consolidated and separate financial statements.

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / profit before income tax		(69)	642
Adjustments for:			
Net (gain)/loss on financial assets and liabilities at fair value through profit or loss		(13,699)	(2,133)
Net loan modification loss	3	2,601	-
Depreciation and amortization expenses	14,15,16	4,942	4,651
Interest income	4	(80,948)	(73,997)
Interest expenses	4	29,236	22,634
Impairment losses on interest bearing assets	5	5,300	8,680
Net foreign exchange loss		20,050	6,805
Loss on disposal of property and equipment		56	146
Gain on lease cancellations		(5)	-
Cash outflow from operating activities before changes in operating assets and liabilities		**(32,536)**	**(32,572)**
Changes in operating assets and liabilities:			
Net increase in financial liabilities/net decrease in financial assets at fair value through profit or loss		2,198	5,208
Increase in loans to customers		(22,672)	(39,809)
Increase in investments in leases		(2,266)	-
(Increase)/decrease in other assets		(671)	159
Increase/(decrease) in other liabilities		221	(70)
Net changes in operating assets and liabilities		**(23,190)**	**(34,512)**
Interest received		77,576	73,045
Interest paid		(28,040)	(22,157)
Income tax paid		(476)	(2,450)
Net cash used in operating activities		**(6,666)**	**(18,646)**

FOR THE YEAR ENDED DECEMBER 31, 2020 (IN THOUSANDS OF GEORGIAN LARI)

	Notes	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	14	(1,747)	(1,374)
Purchases of intangible assets	16	(544)	(1,434)
Proceeds from sale of property and equipment		88	58
Net cash used in investing activities		**(2,203)**	**(2,750)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowed funds	18	122,701	95,883
Repayments of borrowed funds	18	(120,648)	(81,106)
Proceeds from issue of debt security	19	-	12,500
Repayments of debt security	19	-	(9,964)
Repayments of lease liabilities	15	(2,727)	(871)
Proceeds from shares issue	21	-	9,966
Dividends paid	21	(769)	-
Net cash (used in)/generated from financing activities		**(1,443)**	**26,408**
Net increase/(decrease) in cash and cash equivalents		**(10,312)**	**5,012**
Effect of exchange rate changes on the balance of cash held in foreign currencies		8,090	1,141
Cash and cash equivalents as at the beginning of the year	10	20,106	13,953
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	**17,884**	**20,106**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer
July 6, 2021
Tbilisi, Georgia

The notes on pages 95-161 form an integral part of these consolidated and separate financial statements.

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / profit before income tax		(188)	751
Adjustments for:			
Net (gain)/loss on financial assets and liabilities at fair value through profit or loss		(13,699)	(2,133)
Net loan modification loss	3	2,601	-
Depreciation and amortization expenses	14,15,16	4,942	4,651
Interest income	4	(80,948)	(73,997)
Interest expenses	4	29,236	22,634
Impairment losses on interest bearing assets	5	5,300	8,680
Net foreign exchange loss		20,050	6,805
Loss on disposal of property and equipment		56	146
Gain on lease cancellations		(5)	-
Cash outflow from operating activities before changes in operating assets and liabilities		**(29,655)**	**(32,463)**
Changes in operating assets and liabilities:			
Net increase in financial liabilities/net decrease in financial assets at fair value through profit or loss		2,198	5,208
Increase in loans to customers		(22,672)	(39,809)
Increase in investments in leases		(2,266)	-
(Increase)/decrease in other assets		(556)	157
Increase/(decrease) in other liabilities		219	(70)
Net changes in operating assets and liabilities		**(23,077)**	**(34,514)**
Interest received		77,576	73,045
Interest paid		(28,040)	(22,157)
Income tax paid		(476)	(2,450)
Net cash used in operating activities		**(6,672)**	**(18,539)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in a subsidiary		(6)	(109)
Purchases of property and equipment	14	(1,739)	(1,374)
Purchases of intangible assets	16	(544)	(1,434)
Proceeds from sale of property and equipment		88	58
Net cash used in investing activities		**(2,201)**	**(2,859)**

FOR THE YEAR ENDED DECEMBER 31, 2020 (IN THOUSANDS OF GEORGIAN LARI)
FOR THE YEAR ENDED 31 DECEMBER 2020 (IN THOUSANDS OF GEORGIAN LARI)

	Notes	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowed funds	18	122,701	95,883
Repayments of borrowed funds	18	(120,648)	(81,106)
Proceeds from issue of debt security	19	-	12,500
Repayments of debt security	19	-	(9,964)
Repayments of lease liabilities	15	(2,727)	(871)
Proceeds from shares issue	21	-	9,966
Dividends paid	21	(769)	-
Net cash (used in)/received from financing activities		**(1,443)**	**26,408**
Net increase/(decrease) in cash and cash equivalents		**(10,316)**	**5,010**
Effect of exchange rate changes on the balance of cash held in foreign currencies		8,090	1,141
Cash and cash equivalents as at the beginning of the year	10	20,103	13,952
Cash and cash equivalents as at the end of the year	10	**17,877**	**20,103**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer
July 6, 2021
Tbilisi, Georgia

The notes on pages 95-161 form an integral part of these consolidated and separate financial statements.

1. ORGANIZATION

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

On January 26, 2018 the Company established 100% subsidiary – Crystal 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, 2020 the Group has fifty branches (2019: forty-eight branches) around Georgia and the head offices are located in Tbilisi and Kutaisi.

As at December 31, 2020 and 2019 the following shareholders owned the Group:

	December 31, 2020	December 31, 2019
First level shareholders/holders of the issued share capital:		
AGRIF COÖPERATIEF U.A.	38.75%	37.12%
DWM Funds S.C.A-SICAV SIF	12.37%	12.37%
Fund Crystal	1.07%	46.53%
Individual shareholders	47.81%	3.98%
Total	**100%**	**100%**

As at December 31, 2020 the Group's major shareholders are AGRIF COÖPERATIEF U.A. and DWM Funds S.C.A-SICAV SIF with 38.75% and 12.37% shareholding, respectively (December 31, 2019: Fund Crystal with 46.53%).

FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance - These consolidated and separate 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 and separate 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, 2020 current liabilities exceeded current assets by GEL 106,784 (December 31, 2019: GEL 84,888). During the year 2020 and 2019 the Group had net loss of GEL 852 thousand and GEL 324 thousand, respectively.

Due to overall financial results of the Group as at and for the year ended December 31, 2020, it is in breach of foreign currency open position ratios under three of its credit agreements on funding obtained from international lenders. According to IAS 1 "Presentation of Financial Statements", the management classified borrowed funds from all respective parties as current liabilities, which in turn resulted in a breach of liquidity ratios with multiple lenders. As a result, the Group is not in compliance with these financial covenant requirements towards most of partner: local banks, International Finance Institutions (IFI), Development Finance Institutions (DFI) and Microfinance Investment Vehicles (MIV).

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, 2020 equals GEL 273,240 thousand. The Group has intensive communication with foreign lenders to renegotiate the covenants. In addition, there has never been a case of a lender recalling facility ahead of time. On

the contrary, the Group has received approximately GEL 112,887 thousand and USD 7,000 thousand in subsequent period from those lenders after informing them about covenants breaches. In addition, the Group has unused credit lines in amount of GEL 50,600 and approved credit facilities of GEL 67,200, which will be processed till the end of 2021.

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. See also note 27.

These consolidated and separate 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 and separate financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS. The Group presents its consolidated and separate 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 26.

Functional and presentation currency - Items included in the consolidated and separate 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 and separate 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 and separate 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.

Notes to the consolidated and separate financial statements – Notes are disclosed for consolidated financial statements only, since the management believes that there are no material differences between consolidated and separate figures.

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
Net investments in leases	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.

Investments in subsidiary

A subsidiary is an entity, that is controlled by the Company. Investment in subsidiary is recorded in these separate financial statements at cost less impairment loss, if any.

Net investments in leases

At the commencement of the lease, the lessor recognises a lease receivable in its statement of financial position at an amount equal to the net investment in the lease. Net investment in the lease is the sum of the following items discounted at the interest rate implicit in the lease:

a. the lease payments receivable by a lessor under a finance lease; and

b. any unguaranteed residual value accruing to the lessor.

The rate implicit in the lease is the interest rate set by the lessor in the lease agreement. This is the rate at which the present value of the lease payments and the unguaranteed residual value equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor.

Initial direct costs are incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained.

Initial direct cost are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term.

The lessor reduces the net investment in the lease for payments received. A lessor shall recognise finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. A lessor aims to allocate finance income over the lease term on a systematic and rational basis. A lessor shall apply the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income.

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 , 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 26 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 26 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 26.

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.

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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 8.

The fair value of deferred shares granted to employees is measured at the grant date of the shares and is recognized 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 recognized in profit or loss. The net gain/loss recognized 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, 2020	December 31, 2019
GEL/1 US Dollar	3.2766	2.8677
GEL/1 Euro	4.0233	3.2095

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. The parliament of Georgia extended effective date of application of the law few times, the latest being January 1, 2025.

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 2025 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 2025, 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, 2025 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, 2025 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

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, 2020 and 2019.

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.

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.

IFRS 9 COVID-19 measures

The Group defines whether the COVID-19 pandemic is having an impact on a significant increase in the credit risk of borrowers. The Group has temporarily redefined the "significant increase in credit risk" (SICR) by applying more than 20 days overdue status for loans that have received COVID-19-related payment holidays, thus adjusting the probability of default given the pandemic effect.

The Group also applies macroeconomic forecasts that consider the impact of COVID-19 that is available without bearing undue cost or effort.

The total amount of loans to customers in amortized cost which were modified during the financial year ended December 31, 2020 amounts to gross of GEL 121,732 thousand. It resulted in modification loss of GEL 2,601 thousand. The significant part of the modified loans is attributable to COVID-19 out of which GEL 77,980 thousand were in Stage 1, GEL 22,388 thousand - in Stage 2 and GEL 5,038 thousand - in Stage 3.

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 26 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 26 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 26 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 26 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD.

Key updates in ECL methodology

PD counting methodology has been changed; instead of group PD, both 1-year PD and lifetime PD are calculated for individual loans. Instead of the migration matrix, we use much more accurate and modern method: Cox Proportional-Hazards Model is used.

The grading method was abolished because the only motive for the existence of grading was to group loans according to certain characteristics and then calculate PD based on the migration matrix.

Stage improvement rules have been specified and fully automated. During 2020, the Group has introduced cure period of 6 months and 12 months for stage 2 and stage 3 loans, respectively. In addition, the parallel loans of the same borrowers are assessed separately. Abovementioned staging rules did not apply to 2019. The new approach is fully in line with market best practices.

In LGD part, the recovery rate is discounted at the effective rate of defaulted loans only, and not of all loans, as it used to be before. This change is very logical because only defaults are included in the calculation of LGD.

ECL calculation process has become maximally automated; eventually PD, staging and ECL calculations are made in R, allowing the process to be more secure and the data to be more easily controlled.

For details, refer to Note 26.

Recoverability of deferred tax assets

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. Starting from January 1, 2023 the financial institutions will not hold deferred tax assets or liabilities due to the fact that corporate income tax will be only accrued when dividends are declared.

The management of the Group is confident deferred income tax assets/liabilities balances will be fully utilised before the effective date of the law or the effect will be immaterial for the users of consolidated financial statements. The carrying value of deferred tax assets amounted to GEL 2,629 thousand and GEL 3,411 thousand as at December 31, 2020 and 2019, respectively.

Fair valuation of financial instruments

As described in Note 24, 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 24 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.

Changes in IFRS 16 estimations:

Before May 2020, only two lease contracts were assessed as long-term and were recognised as finance lease under IFRS 16. All other lease contracts, related to branches, were considered as short-term, as Group had no plans to use them after planned transaction of bank acquisition. By the end of April 2020, due to all of the uncertainty brought by the global pandemic, the preliminary deal was cancelled, which made the management revise the strategy of the Group and reassess lease term assumptions. Under new strategy, Group assessed that it will use branches more than 1 year and they were recognised as finance lease under IFRS 16 requirements. As a result, Group recognized 48 additional finance lease contracts, which resulted in initial recognition of Lease liability and Right of Use assets in an amount of GEL 10,433 thousand.

4. AMENDMENTS TO IFRS AFFECTING AMOUNTS REPORTED IN THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In the current year, the Group has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after January 1, 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated and separate financial statements.

Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The amendments are not relevant to the Group given that it does not apply hedge accounting to its benchmark interest rate exposures. Respectively, the application of the amendments does not impact the Group's accounting for the year ended December 31, 2020.

The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9.

COVID-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession applying IFRS 16 as if the change were not a lease modification. The Group did not elect COVID-19 related rent concession approach, performed the assessment of amended lease agreements and concluded that they represent modifications.

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Amendments to References to the Conceptual Framework in IFRS Standards

The Group has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. 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 Standard which are amended are 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.

Amendments to IFRS 3 Definition of a business

The Group has adopted the amendments to IFRS 3 for the first time in the current year. 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.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance 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 January 1, 2020.

Amendments to IAS 1 and IAS 8 Definition of material

The Group has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments 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.

FOR THE YEAR ENDED 31 DECEMBER 2020 (IN THOUSANDS OF GEORGIAN LARI)

New and revised Standards in issue but not yet effective

At the date of authorization of these consolidated and separate 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 or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment—Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to IFRS Standards 2018-2020 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture

The management do not expect that the adoption of the Standards listed above will have a material impact on the consolidated and separate financial statements of the Group in future periods.

5. NET INTEREST INCOME

	2020	2019
Interest income calculated using the effective interest rate method:		
Loans to customers	76,796	71,513
Cash and cash equivalents	1,024	321
Investments in leases	263	-
Other income	723	121
	78,806	**71,955**
Other interest income:		
Penalty income	2,142	2,042
Total interest income on financial assets measured at amortised cost	**80,948**	**73,997**
Interest expenses		
Borrowed funds	(26,990)	(19,885)
Debt securities issued	(1,555)	(2,437)
Lease liability	(691)	(312)
	(29,236)	**(22,634)**
Net interest income	**51,712**	**51,363**

6. NET FEE AND COMMISSION INCOME / (EXPENSE)

	2020	2019
Other fee and commission income	517	438
Net fee and commission (expense)/income from foreign currency conversion	(1,686)	881
Other fee and commission expense	(521)	(431)
	(1,690)	**888**

7. NET FEE AND COMMISSION INCOME / (EXPENSE)

Personnel expenses for the year 2020 and 2019 were as follows:

	2020	2019
Salaries and other benefits	22,567	21,808
	22,567	**21,808**

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 and for the year ended December 31, 2020 and December 31, 2019, MIP was neither designed nor recognized and distributed, as decided by the Supervisory Board.

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8. OTHER OPERATING EXPENSES

	2020	2019
Utilities and communication	1,362	1,619
Expense related to short-term leases and low-cost items	1,243	3,309
Software technical support and maintenance	1,154	633
Legal and other professional services	987	1,061
Bank charges	592	969
Membership fees	567	922
Consumables and office supplies	516	574
Insurance	483	325
Taxes other than on income	354	143
Marketing and advertising	353	486
Fuel	214	416
Security	193	203
Repairs and maintenance	124	223
Business trips	100	369
Personnel training and recruitment	41	145
Charity	19	55
Research for own software development	-	124
Other	879	452
	9,181	**12,028**

9. TAXATION

	2020	2019
Current year tax expense	-	1,877
	-	**1,877**
Movement in deferred tax assets and liabilities due to origination or/and reversal of temporary differences	783	(911)
Total income tax expense	**783**	**966**

The applicable tax rate for current and deferred tax is 15% for the years ended December 31, 2020 and 2019.

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

	2020	2019
(Loss)/Profit before tax	**(69)**	**642**
Income tax at the statutory rate	(10)	96
Unrecognized deferred tax	654	864
Tax effect of permanent differences	139	6
Total income tax (benefit)/ expense	**783**	**966**

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, 2020 and 2019.

Starting from January 1, 2023 due to introduction of new profit tax model, the financial institutions will not hold deferred tax assets or liabilities due to the fact that corporate income tax will be only accrued when dividends are declared. According to the management of Group, at the moment of transition to the new profit tax model, some part of deferred tax asset will not be utilized. Respectively, the deferred tax amount is decreased by GEL 654 thousand and GEL 864 thousand as of December 31, 2020 and December 31, 2019. Unutilized amounts are fully attributable to loans to customers.

Movements in temporary differences during the years ended 31 December 2020 and 2019 are presented as follows.

	January 1, 2020	Recognized in profit or loss	December 31, 2020
Loans to customers	3,019	(939)	2,080
Property and equipment	(35)	43	8
Intangible assets	(57)	74	17
Other assets	(20)	38	18
Financial liabilities at fair value through profit or loss	(13)	(135)	(148)
Loans and borrowings	334	13	347
Lease liability	51	131	182
Other liabilities	132	(8)	124
	3,411	**(783)**	**2,628**

	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**

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10. CASH AND CASH EQUIVALENTS

	December 31, 2020	December 31, 2019
Cash on hand	12,840	11,785
Bank balances	5,044	8,321
Total cash and cash equivalents	**17,884**	**20,106**

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, 2020 and 2019 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, 2020	December 31, 2019
Financial assets at fair value through profit or loss		
Derivative financial assets		
Foreign currency forward contracts	-	-
Currency swap contracts	2,509	-
Financial assets at fair value through profit or loss	**2,509**	**-**

	December 31, 2020	December 31, 2019
Financial liabilities at fair value through profit or loss		
Derivative financial liabilities		
Foreign currency forward contracts	-	(2,315)
Currency swap contracts	-	(1,977)
Financial liabilities at fair value through profit or loss	**-**	**(4,292)**

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, 2020 and 2019 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, 2020	December 31, 2019
Sell USD buy GEL		
Less than 3 months	157,113	12,159
Between 3 and 12 months	-	101,517
	157,113	**113,676**
Sell CHF buy GEL		
Less than 3 months	1,855	-
	1,855	**-**
Sell CHF buy USD		
Less than 3 months	4,011	-
	4,011	**-**
Sell EUR buy USD		
Less than 3 months	12,070	-
	12,070	**-**

12. LOANS TO CUSTOMERS

	December 31, 2020	December 31, 2019
Principal	317,477	302,007
Accrued interest	11,849	8,477
Less: expected credit losses	(13,446)	(13,273)
Total loans to customers	**315,880**	**297,211**
Analysis by products groups:		
SME loans	67,400	73,766
Housing loans	53,156	48,462
Agricultural loans	55,103	58,960
Micro business loans	50,221	51,595
Fast instalment loans	42,740	32,279
Pawnshop loans	29,939	21,182
Consumer loans	30,767	24,240
Total loans to retail customers	**329,326**	**310,484**
Gross loans to customers		
Less: expected credit losses	(13,446)	(13,273)
Net loans to customers	**315,880**	**297,211**

All loans to customers are measured at amortised cost. The loans to customers are aggregated into homogeneous product groups, whereby loans in each group display similar characteristics, considering their performance, related risks and underlying business processes.

The following table provides information by loans product groups as at December 31, 2020:

	Gross carrying amount	Loss allowance	Carrying amount
Loans to retail customers:			
SME loans	67,400	(3,143)	64,257
Housing loans	53,156	(1,366)	51,790
Agricultural loans	55,103	(3,761)	51,342
Micro business loans	50,221	(2,611)	47,610
Fast instalment loans	42,740	(1,359)	41,381
Pawnshop loans	29,939	(20)	29,919
Consumer loans	30,767	(1,186)	29,581
Total loans to customers	**329,326**	**(13,446)**	**315,880**

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The following table provides information by loans product groups as at December 31, 2019:

	Gross carrying amount	Loss allowance	Carrying amount
Loans to retail customers:			
SME loans	73,766	(3,867)	69,899
Housing loans	48,462	(1,269)	47,193
Agricultural loans	58,960	(4,127)	54,833
Micro business loans	51,595	(2,445)	49,150
Fast instalment loans	32,279	(659)	31,620
Pawnshop loans	21,182	(27)	21,155
Consumer loans	24,240	(879)	23,361
Total loans to customers	**310,484**	**(13,273)**	**297,211**

Movements in the loan impairment allowance for the year ended December 31, 2020 are as follows:

	2020			
	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	2,975	3,942	6,356	13,273
New loans originated	5,209	-	-	5,209
Transfer to 12-month ECL	1,427	(1,427)	-	-
Transfer to lifetime ECL not credit-impaired	(6,166)	6,326	(160)	-
Transfer to lifetime ECL credit-impaired	-	(4,688)	4,688	-
Repaid loans	(1,457)	(1,215)	(348)	(3,020)
Written off for the year	(4)	-	(6,872)	(6,876)
Recoveries of previously written off	7	3	1,486	1,496
Changes due to change in credit-risk	1,633	344	993	2,970
Interest income correction	-	-	352	352
Foreign exchange gain	12	10	20	42
Balance at the end of the year	**3,636**	**3,295**	**6,515**	**13,446**

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Respective movements in the gross carrying amounts of loans to customers for the year ended December 31, 2020 are as follows:

2020	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	214,927	84,948	10,609	310,484
New loans originated	221,302	-	-	221,302
Transfer to 12-month ECL	20,051	(20,051)	-	-
Transfer to lifetime ECL not credit-impaired	(58,316)	58,884	(568)	-
Transfer to lifetime ECL credit-impaired	-	(6,267)	6,267	-
Repaid loans	(141,838)	(55,539)	(115)	(197,492)
Written off for the year	(4)	-	(6,872)	(6,876)
Recoveries of previously written off	7	3	1,486	1,496
Foreign exchange loss	331	71	10	412
Balance at the end of the year	**256,460**	**62,049**	**10,817**	**329,326**

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**

13. NET INVESTMENTS IN LEASES

Net investments in leases represent non-overdue financial assets as of December 31, 2020 and are assigned to stage 1. Expected credit loss expense recognized during 2020 equals to GEL 20 thousand.

The following table provides information by investment sector as at December 31, 2020:

Investments in leases:	Gross carrying amount	Loss allowance	Carrying amount
Service	612	(5)	607
Construction	363	(2)	361
Beauty and healthcare	280	(2)	278
Trade	252	(3)	249
Transportation and logistics	243	(3)	240
Manufacturing	239	(3)	236
Agriculture	104	(1)	103
Consumer	90	-	90
Real estate development	71	(1)	70
HoReCa	12	-	12
Total investments in leases	**2,266**	**(20)**	**2,246**

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14. PROPERTY AND EQUIPMENT

	Buildings	Vehicles	Furniture	IT equipment	Leasehold improvements	Other	Total
Cost							
at January 1, 2020	105	1,184	1,229	3,399	6,087	4,071	16,075
Additions	-	-	69	967	301	410	1,747
Disposals	-	-	(6)	(2)	(89)	(100)	(197)
Transfers	-	-	14	147	-	(161)	-
at December 31, 2020	**105**	**1,184**	**1,306**	**4,511**	**6,299**	**4,220**	**17,625**
Accumulated depreciation							
at January 1, 2020	(41)	(607)	(802)	(1,911)	(4,346)	(2,766)	(10,473)
Depreciation for the year	(3)	(174)	(187)	(482)	(566)	(444)	(1,856)
Eliminated on disposals	-	-	6	-	40	7	53
at December 31, 2020	**(44)**	**(781)**	**(983)**	**(2,393)**	**(4,872)**	**(3,203)**	**(12,276)**
Carrying amount							
At December 31, 2020	**61**	**403**	**323**	**2,118**	**1,427**	**1,017**	**5,349**

	Buildings	Vehicles	Furniture	IT equipment	Leasehold improvements	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**

Other property and equipment mainly consists of security systems and generators. As at December 31, 2020 and December 31, 2019 fully depreciated items represented GEL 6,188 thousand and GEL 2,793 thousand, respectively. There are no capitalized borrowing costs related to the acquisition or construction of property and equipment during the years ended December 31, 2020 and 2019.

15. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	Buildings and Offices	Vehicles	Total
Cost			
Balance at 1 January 2020	3,516	1,023	4,539
Additions	10,433	120	10,553
Cancellations	-	(96)	(96)
Modification of leases	(136)	-	(136)
Balance at 31 December 2020	**13,813**	**1,047**	**14,860**
Depreciation			
Balance at 1 January 2020	(659)	(303)	(962)
Depreciation for the year	(2,234)	(355)	(2,589)
Balance at 31 December 2020	**(2,893)**	**(658)**	**(3,551)**
Carrying amount At 31 December 2020	**10,920**	**389**	**11,309**

	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**

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Movements in lease liabilities in 2020 and 2019 were as follows:

	2020	2019
Balance at 1 January	3,914	4,294
Additions	10,553	245
Cancellations	(101)	-
Modifications	(136)	-
Interest expense	691	312
Foreign exchange (gain) / loss	577	246
Repayment of lease liability	(2,976)	(1,183)
Total	**12,522**	**3,914**

As described in note 3, during 2020 the Group has re estimated the lease terms for its 48 branches and recognized on balance according to IFRS 16.

Weighted average lease term for the right-of-use assets as of December 31, 2020 and December 31, 2019 is 3.8 and 4.3 years respectively and the weighted average lessee's incremental borrowing rate applied to the lease liabilities as of December 31, 2019 and December 31, 2020 is 7.3% and 6.7% respectively.

Lease Liability	December 31, 2020	December 31, 2019
Maturity analysis	**Amounts payable under finance leases**	**Amounts payable under finance leases**
Year 1	4,391	1,260
Year 2	4,068	1,265
Year 3	3,100	840
Year 4	1,506	636
Year 5	535	432
Onwards	662	72
Less: unearned interest	(1,740)	(591)
Total lease Liability	**12,522**	**3,914**

Amounts recognised in profit and loss	2020	2019
Depreciation expense	(2,589)	(962)
Interest expense	(691)	(312)
Foreign exchange effect	(577)	(246)
Expenses related to short-term leases and low-cost items	(1,243)	(3,309)
Gain on lease cancellations	5	-
Total	**(5,095)**	**(4,829)**

16. INTANGIBLE ASSETS

	Intangible assets
Cost	
at 1 January 2019	**2,967**
Additions	1,434
at December 31, 2019	**4,401**
Additions	544
at December 31, 2020	**4,945**
Accumulated amortization	
at January 1, 2019	**(1,415)**
Amortization for the year	(422)
at December 31, 2019	**(1,837)**
Amortization for the year	(497)
at December 31, 2020	**(2,334)**
Carrying amounts	
At December 31, 2019	**2,564**
At December 31, 2020	**2,611**

Intangible assets include software and licenses, including work-in-process internally developed software in an amount of GEL 260 thousand.

17. OTHER ASSETS

	December 31, 2020	December 31, 2019
Other receivables	2,663	2,297
Less: expected credit losses	(121)	-
Total other financial assets	**2,542**	**2,297**
Prepayments	962	937
Repossessed assets	924	683
Taxes other than income	235	108
Inventory	50	130
Total other non-financial assets	**2,171**	**1,858**
Total other assets	**4,713**	**4,155**

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

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18. 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 26.

	December 31, 2020	December 31, 2019
Loans from financial institutions	273,397	248,235
Subordinated debt	6,571	5,748
Total borrowed funds	**279,968**	**253,983**

	December 31, 2020	December 31, 2019
Principal	275,893	250,604
Interest accrued	4,075	3,379
Total borrowed funds	**279,968**	**253,983**

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

	December 31, 2020	December 31, 2019
Non-current liabilities		
Borrowed funds	-	-
Current liabilities		
Borrowed funds	279,968	253,983
Total borrowed funds	**279,968**	**253,983**

Subordinated debt

As at December 31, 2020 and 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 6,571 thousand and GEL 5,748 thousand with annual interest rate of 9%.

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

Terms and debt repayments

Terms and conditions of outstanding borrowed funds are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2019 Carrying Amount	December 31, 2018 Carrying Amount
Unsecured loans from financial institutions	USD	2.75% - 7.25%	2020 – 2024	152,450	112,687
Unsecured loans from financial institutions	GEL	11.00% - 13.77%	2020 – 2024	120,947	135,548
Unsecured subordinated debt	USD	9.00%	2025	6,571	5,748
Total borrowed funds				**279,968**	**253,983**

Reconciliation of changes arising from financing activities

	January 1, 2020	Receipt of loans during the year 2020	Repayment of loans during the year 2020	Interest accrual during the year 2020	Interest paid during the year 2020	Foreign exchange loss during the year 2020	December 31, 2020
Borrowed funds	253,983	122,701	(120,648)	26,990	(26,294)	23,236	**279,968**

	January 1, 2019	Receipt of loans during the year 2019	Repayment 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**

Unused credit line facilities

In December 2019 the Group signed a credit line agreement with JSC Bank of Georgia with an available facility of GEL 15,000 thousand expiring in 2021.

In February 2020 the Group signed a credit line agreement with JSC TBC Bank with an available facility of GEL 10,000 thousand expiring in 2021.

In December 2020 the Group signed a credit line agreement with JSC Bank of Georgia with an available facility of GEL 5,000 thousand expiring in 2021.

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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, 2020, it is in breach of foreign currency open position ratios under three of its credit agreements on funding obtained from international lenders. According to IAS 1 "Presentation of Financial Statements", the management classified borrowed funds from all respective parties as current liabilities, which in turn resulted in a breach of liquidity ratios with multiple lenders. As a result, the Group is not in compliance with these financial covenant requirements towards most of partner: local banks, International Finance Institutions (IFI), Development Finance Institutions (DFI) and Microfinance Investment Vehicles (MIV). 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, 2020 equals GEL 273,240 thousand.

19. 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 26.

	December 31, 2020	December 31, 2019
Principal	12,407	12,407
Interest accrued	318	260
Total debt securities issued	**12,725**	**12,667**

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

	December 31, 2020	December 31, 2019
Non-current liabilities		
Debt securities issued	-	12,407
Current liabilities		
Debt securities issued	12,725	260
Total debt securities issued	**12,725**	**12,667**

Corporate bond

Debt securities issued includes Corporate Bond. As at December 31, 2020 and 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.

Terms and debt repayment

Terms and conditions of outstanding debt securities are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2020 Carrying Amount	December 31, 2019 Carrying Amount
Debt securities issued	**GEL**	**4%+NBG refinancing rate**	**2021**	**12,725**	**12,667**
Total debt securities issued				**12,725**	**12,667**

Reconciliation of changes arising from financing activities:

	January 1, 2020	Receipt of debt securities during the year 2020	Repayment of debt securities during the year 2020	Interest accrual during the year 2020	Interest paid during the year 2020	Foreign exchange gain during the year 2020	December 31, 2020
Debt securities issued	12,667	-	-	1,555	(1,497)	-	**12,725**

	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**

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20. OTHER LIABILITIES

	December 31, 2020	December 31, 2019
Other payables	1,062	781
Accruals for employee compensation	778	822
Total other financial liabilities	**1,840**	**1,603**
Other non-financial liabilities	9	7
Total other non-financial liabilities	**9**	**7**
Total other liabilities	**1,849**	**1,610**

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.

21. SHARE CAPITAL AND RESERVES

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

Share capital

Share capital as at December 31, 2020:

Shareholder	Number of shares	Common/ non-redeemable preference	Share %	Voting rights	Capital GEL
AGRIF COÖPERATIEF U.A.	1,186,157	Common	38.75%	38.75%	1,185
DWM Funds S.C.A-SICAV SIF	378,719	Common	12.37%	12.37%	379
Fund Crystal	32,682	Common	1.07%	1.07%	33
Individual shareholders	1,463,624	Common	47.81%	47.81%	1,464
	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, 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%	37.12%	1,136
DWM Funds S.C.A-SICAV SIF	378,719	Common	12.37%	12.37%	379
Individual shareholders	121,791	Common	3.98%	3.98%	122
	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**

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 for the years ended December 31, 2020 and December 31, 2019. The addition in 2019 is a result of preferred share issue in March 2019.

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 999 thousand and GEL 767 thousand were declared for the years 2020 and 2019, 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.

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22. 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 few 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 the years paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

COVID-19. Further, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in the announcement of the pandemic status by the World Health Organization in March 2020. Measures 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. As a result, the Group may face increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets.

The Group's management monitors current changes in the economic situation and takes measures that it considers necessary to maintain the stability and development of the Group in the near future. However, 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 the Armenian economy. The impact of changes in the economic environment on the future results of operations and the financial position of the Group is currently difficult to determine.

23. RELATED PARTY TRANSACTIONS

Control relationships

As at December 31, 2020 the Group's major shareholders are AGRIF COÖPERATIEF U.A. and DWM Funds S.C.A-SICAV SIF with 38.75% and 12.37% shareholding, respectively (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, 2020 and 2019 is as follows:

	2020	2019
Salaries and bonuses	1,128	1,106
Consulting fees	516	472
	1,644	**1,578**

Other related party transactions

	Fee and commission expenses 2020	Fee and commission expenses 2019	Other liabilities as of December 31, 2020	Other liabilities as of December 31, 2019
Other				
JSC Mobile Finance Services - Georgia*	521	431	426	309
	521	**431**	**426**	**309**

These expenses are of 2 types by nature:

1. Cash withdrawal fees, that essentially are the customers' expense, but the Group covers for the ease of the process and avoidance of certain technical difficulties – GEL 371 thousand (2019: GEL 277 thousand)

2. Software development and service integration fees – GEL 150 thousand (2019: GEL 154 thousand)

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

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24. 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, 2020		December 31, 2019	
		Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	Level 1	17,884	17,884	20,106	20,106
Loans to customers	Level 3	315,880	320,963	297,211	305,088
Net investments in leases	Level 3	2,246	2,246	-	-
Other financial assets	Level 3	2,542	2,542	2,297	2,297
Borrowed funds	Level 3	279,968	279,206	253,983	252,453
Debt securities issued	Level 3	12,725	12,725	12,667	12,667
Lease liability	Level 3	12,522	12,522	3,914	3,914
Other financial liabilities	Level 3	1,840	1,840	1,603	1,603

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

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

Derivative financial instruments	Fair value as at December 31, 2020	Fair value as at December 31, 2019	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	2,509	-	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	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.

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25. 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 GEL 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%

onsidering effects of COVID-19 on the finance sector, the NBG reduced its CAR requirement on a case-by-case basis. The Group has been in compliance with the requirements throughout the whole period, as well as as at the reporting date.

The below table discloses the compliance with NBG CAR ratio as at December 31, 2020 and December 31, 2019:

	2020	2019
Share capital	3,635	3,635
Share premium	22,110	22,110
Retained earnings	32,266	34,117
Eligible subordinated debt	6,571	5,748
Regulatory capital before reductions	**64,582**	**65,610**
Less intangible assets	(2,611)	(2,564)
Regulatory capital	**61,971**	**63,046**

	2020	2019
Total assets before reductions	366,074	337,095
Less intangible assets	(2,611)	(2,564)
Total assets after reductions	**363,463**	**334,531**

	December 31, 2020	December 31, 2019
Capital adequacy ratio	17.05%	18.85%

The Group also monitors its capital adequacy levels to comply with debt covenants, calculated in accordance with the lenders requirements. See Note 18 for the details of compliance with covenants.

26. 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.).

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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, 2020 and 2019, the Group has no debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

Portfolio segmentation applicable for 2020 and 2019

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.

Significant increase in credit risk applicable for 2020 and 2019

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.

Credit risk grades applicable before January 1, 2020

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.

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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.

Staging rules applicable before January 1, 2020

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

The calculation of a 1-year or lifetime ECL depends on whether the financial asset is allocated to stage 1, 2 or 3, according to the following criteria defined by company.

Staging rules applicable after January 1, 2020

Stage 3 = Default:

For the purposes of the impairment model, it was decided that the definition of impaired and default are to be aligned and that the staging is defined on a client level according to the following logic:

Enter criteria:
- If loan is Pawnshop:
- current DPD > 30
- Decease of a client.
- If loan is not Pawnshop:
- current DPD >90
- Decease of a client
- If manual default flag = 1
- Has written off parallel loan which is not closed.

Exit criteria:
- Probation period – 12 months. If during this period DPD always never more than 0 at the end of each month, then the loan is transferred to Stage 2

Stage 2:
It is considered that the credit risk on a financial instrument has increased significantly since initial recognition when one of the following criteria is verified

Enter criteria:
- 30 < current DPD <= 90
- restructured loan
- 12m PD increase from the origination date by more than 50%
- If loan is Pawnshop
- Temporary (until 30/06/2021): Clients' credit risk affected by Covid-19

Exit criteria:
- Probation period – 6 months.
- If loan with standard payment schedule[3] and during this period DPD always was 0 at the end of each month, then the loan is transferred to Stage 1.
- If loan with non-standard payment schedule and during this period at least 50% of annual installment (principal + interest) has duly paid (current DPD is 0 at the end of each month), then the loan is transferred to Stage 1.

Definition of default applicable for 2020 and 2019

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

3 Loan has standard payment schedule if a) payment is once in a month, b) all payment amounts are equal except last payment amount, c) first payment is within first 45 days from loan disbursement and d) the last payment should not be bigger by more than 10% to the previous payment

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.

Incorporation of forward-looking information applicable for 2020 and 2019

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 macro-economic indicators included in the economic scenarios used at December 31, 2020 for the years 2021 to 2023, for Georgia:

	2021	2022	2023
GDP Growth			
Base scenario	4.0	5.0	5.0
Upside scenario	5.0	6.0	5.0
Downside scenario	1.0	3.0	4.5
Inflation rate			
Base scenario	4.5	3.0	3.0
Upside scenario	3.5	3.0	3.0
Downside scenario	7.0	4.0	2.5
Monetary policy interest rate			
Base scenario	8.5	7.5	6.5
Upside scenario	8.5	7.0	6.5
Downside scenario	9.5	8.5	7.0
Nominal effective exchange rate			
Base scenario	239.0	239.0	239.0
Upside scenario	246.2	253.6	253.6
Downside scenario	224.7	217.9	224.5

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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) applicable before January 1, 2020

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.

Probability of default (PD) applicable after January 1, 2020

Cox model is a well-known statistical concept widely used in survival analysis, which is the area of statistics that deals with lifetime data. The variable of interest is the time to the occurrence of an event. It is commonly used in medical drug studies and reliability studies in engineering. In the case of credit risk, the event in question is default.

As mentioned in the ECL paragraph, ECL calculation utilizes PD (Marginal Probability of Default) through CPD (cumulative Probability of Default). It occurs that both parameters can be easily obtained from hazard functions calculated for each exposure.

As a result of the application of survival models, there is a transition from old model based only on delinquency migration to individual assessment in new model. In addition to applicative factors, behavioral factors are added to the new model, which demonstrates the potential for the development of this approach in assessing the probability of default.

Full procedure of PD model estimation consisted of five main steps:

- Data preparation and selection of candidates for explanatory variables.
- Single analysis.
- multi-factor analysis.
- Estimation of covariates in Cox proportional hazard model.
- Quality and back testing
- Main assumptions and segmentation

For the modelling purposes the following assumptions were taken:

- Only first default for each exposure was consider as valid (i.e. remaining data after default entry was cut off)
- All facilities which are in default at their first observation date were excluded from the sample
- Default was defined by 2 criteria: days past due and written off status
- Each occurrence of a loan within a timeline was considered as a separate observation

Modeling was based on a product group segmentation that separates loans looking at common characteristics.

As at December 31, 2020, 10% increase/(decrease) in average PD per each segment results in ECL increase/(decrease) by 5.1% that represents GEL 690/(591) thousand.

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.

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, 2020, 10% increase/(decrease) in average LGD per each segment results in ECL increase/(decrease) by 9.1% that represents GEL 1,227/(1,227) thousand.

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.

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, 2020:

	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 product group:							
SME loans							
Not overdue	65,006	(640)	(826)	(791)	(2,257)	62,749	3%
1 to 30 days overdue	547	-	(36)	(99)	(135)	412	25%
31 to 60 days overdue	624	-	(114)	(84)	(198)	426	32%
61 to 90 days overdue	360	-	(56)	(106)	(162)	198	45%
91 to 180 days overdue	863	-	-	(391)	(391)	472	46%
Over 180 days overdue	-	-	-	-	-	-	0%
Total SME loans	**67,400**	**(640)**	**(1,032)**	**(1,471)**	**(3,143)**	**64,257**	**5%**

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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 %
Housing loans							
Not overdue	52,097	(351)	(239)	(330)	(920)	51,177	2%
1 to 30 days overdue	212	(1)	(21)	(13)	(35)	177	17%
31 to 60 days overdue	247	-	(14)	(86)	(100)	147	40%
61 to 90 days overdue	197	-	(18)	(47)	(65)	132	33%
91 to 180 days overdue	403	-	-	(246)	(246)	157	61%
Over 180 days overdue	-	-	-	-	-	-	0%
Total housing loans	**53,156**	**(352)**	**(292)**	**(722)**	**(1,366)**	**51,790**	**3%**
Agricultural loans							
Not overdue	52,488	(869)	(595)	(1,006)	(2,470)	50,018	5%
1 to 30 days overdue	482	-	(62)	(45)	(107)	375	22%
31 to 60 days overdue	693	-	(103)	(177)	(280)	413	40%
61 to 90 days overdue	568	-	(173)	(108)	(281)	287	49%
91 to 180 days overdue	872	-	-	(623)	(623)	249	71%
Over 180 days overdue	-	-	-	-	-	-	0%
Total agricultural loans	**55,103**	**(869)**	**(933)**	**(1,959)**	**(3,761)**	**51,342**	**7%**
Micro business loans							
Not overdue	48,319	(839)	(364)	(626)	(1,829)	46,490	4%
1 to 30 days overdue	576	(2)	(37)	(92)	(131)	445	23%
31 to 60 days overdue	386	-	(56)	(52)	(108)	278	28%
61 to 90 days overdue	249	-	(58)	(47)	(105)	144	42%
91 to 180 days overdue	691	-	-	(438)	(438)	253	63%
Over 180 days overdue	-	-	-	-	-	-	0%
Total micro business loans	**50,221**	**(841)**	**(515)**	**(1,255)**	**(2,611)**	**47,610**	**5%**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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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 %
Fast instalment loans							
Not overdue	41,294	(550)	(82)	(18)	(650)	40,644	2%
1 to 30 days overdue	383	(1)	(28)	(4)	(33)	350	9%
31 to 60 days overdue	224	-	(46)	(5)	(51)	173	23%
61 to 90 days overdue	185	-	(73)	(15)	(88)	97	48%
91 to 180 days overdue	654	-	-	(537)	(537)	117	82%
Over 180 days overdue	-	-	-	-	-	-	0%
Total fast instalment loans	**42,740**	**(551)**	**(229)**	**(579)**	**(1,359)**	**41,381**	**3%**
Pawn shop loans							
Not overdue	29,388	-	(5)	-	(5)	29,383	0%
1 to 30 days overdue	482	-	(1)	-	(1)	481	0%
31 to 60 days overdue	38	-	-	(8)	(8)	30	21%
61 to 90 days overdue	7	-	-	(1)	(1)	6	14%
91 to 180 days overdue	24	-	-	(5)	(5)	19	21%
Over 180 days overdue	-	-	-	-	-	-	0%
Total pawn shop loans	**29,939**	**-**	**(6)**	**(14)**	**(20)**	**29,919**	**0%**
Consumer loans							
Not overdue	29,637	(383)	(173)	(175)	(731)	28,906	2%
1 to 30 days overdue	403	-	(23)	(55)	(78)	325	19%
31 to 60 days overdue	191	-	(43)	(8)	(51)	140	27%
61 to 90 days overdue	132	-	(49)	(19)	(68)	64	52%
91 to 180 days overdue	404	-	-	(258)	(258)	146	64%
Over 180 days overdue	-	-	-	-	-	-	0%
Total consumer loans	**30,767**	**(383)**	**(288)**	**(515)**	**(1,186)**	**29,581**	**4%**
Total loans to customers	**329,326**	**(3,636)**	**(3,295)**	**(6,515)**	**(13,446)**	**315,880**	**4%**

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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	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans %
Analysis by product group:							
SME loans							
Not overdue	71,756	(332)	(1,527)	(1,128)	(2,987)	68,769	4%
1 to 30 days overdue	748	(63)	(13)	(134)	(210)	538	28%
31 to 60 days overdue	282	-	(64)	(42)	(106)	176	38%
61 to 90 days overdue	207	-	(32)	(42)	(74)	133	36%
91 to 180 days overdue	773	-	(2)	(488)	(490)	283	63%
Over 180 days overdue	-	-	-	-	-	-	0%
Total SME loans	**73,766**	**(395)**	**(1,638)**	**(1,834)**	**(3,867)**	**69,899**	**5%**
Housing loans							
Not overdue	47,469	(314)	(211)	(305)	(830)	46,639	2%
1 to 30 days overdue	234	(21)	(6)	(15)	(42)	192	18%
31 to 60 days overdue	147	-	(37)	(21)	(58)	89	39%
61 to 90 days overdue	144	-	(32)	(45)	(77)	67	53%
91 to 180 days overdue	468	-	(9)	(253)	(262)	206	56%
Over 180 days overdue	-	-	-	-	-	-	0%
Total housing loans	**48,462**	**(335)**	**(295)**	**(639)**	**(1,269)**	**47,193**	**3%**
Agricultural loans							
Not overdue	55,453	(833)	(611)	(926)	(2,370)	53,083	4%
1 to 30 days overdue	741	(93)	(23)	(185)	(301)	440	41%
31 to 60 days overdue	863	-	(281)	(154)	(435)	428	50%
61 to 90 days overdue	1,022	-	(320)	(150)	(470)	552	46%
91 to 180 days overdue	881	-	(1)	(550)	(551)	330	63%
Over 180 days overdue	-	-	-	-	-	-	0%
Total agricultural loans	**58,960**	**(926)**	**(1,236)**	**(1,965)**	**(4,127)**	**54,833**	**7%**

	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 %
Micro business loans							
Not overdue	49,531	(562)	(310)	(616)	(1,488)	48,043	3%
1 to 30 days overdue	677	(67)	(31)	(76)	(174)	503	26%
31 to 60 days overdue	294	-	(51)	(87)	(138)	156	47%
61 to 90 days overdue	242	-	(53)	(64)	(117)	125	48%
91 to 180 days overdue	851	-	-	(528)	(528)	323	62%
Over 180 days overdue	-	-	-	-	-	-	0%
Total micro business loans	**51,595**	**(629)**	**(445)**	**(1,371)**	**(2,445)**	**49,150**	**5%**
Fast instalment loans							
Not overdue	31,913	(343)	(117)	(10)	(470)	31,443	1%
1 to 30 days overdue	143	(31)	(1)	(3)	(35)	108	24
31 to 60 days overdue	55	-	(23)	(3)	(26)	29	47%
61 to 90 days overdue	38	-	(18)	(7)	(25)	13	66%
91 to 180 days overdue	130	-	-	(103)	(103)	27	79%
Over 180 days overdue	-	-	-	-	-	-	0%
Total fast instalment loans	**32,279**	**(374)**	**(159)**	**(126)**	**(659)**	**31,620**	**2%**
Pawn shop loans							
Not overdue	20,658	-	(27)	-	(27)	20,631	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	**21,182**	**-**	**(27)**	**-**	**(27)**	**21,155**	**0%**

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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 %
Consumer loans							
Not overdue	23,667	(287)	(89)	(214)	(590)	23,077	2%
1 to 30 days overdue	186	(29)	(1)	(32)	(62)	124	33%
31 to 60 days overdue	94	-	(35)	(5)	(40)	54	43%
61 to 90 days overdue	64	-	(17)	(20)	(37)	27	58%
91 to 180 days overdue	229	-	-	(150)	(150)	79	66%
Over 180 days overdue	-	-	-	-	-	-	0%
Total consumer loans	**24,240**	**(316)**	**(142)**	**(421)**	**(879)**	**23,361**	**4%**
Total loans to customers	**310,484**	**(2,975)**	**(3,942)**	**(6,356)**	**(13,273)**	**297,211**	**4%**

During the years ended December 31, 2020 and 2019, 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.

In additional, for the year ended December 31, 2020 the Group determined and recognized the net loan modification loss of GEL 2,601, which mostly was the result of 3-month moratorium (payment holidays) on the major part of its loan portfolio, announced so as to aid the customers amid COVID-19 crisis.

Analysis of collateral and other credit enhancements

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

	December 31, 2020	% of loan portfolio	December 31, 2019	% of loan portfolio
Loans with no collateral	185,013	59%	169,341	57%
Loans with collateral	130,867	41%	127,870	43%
Total	**315,880**	**100%**	**297,211**	**100%**

Type of collateral	December 31, 2020 Gross carrying amount	December 31, 2020 ECL	December 31, 2020 Carrying amount	December 31, 2020 Collateral Fair Value
Real estate	99,845	(4,727)	95,118	278,998
Precious metals	30,059	(20)	30,039	52,475
Movable property	5,960	(250)	5,710	14,153
Non-collateralized	193,462	(8,449)	185,013	-
Total	**329,326**	**(13,446)**	**315,880**	**345,626**

Type of collateral	December 31, 2019 Gross carrying amount	December 31, 2019 ECL	December 31, 2019 Carrying amount	December 31, 2019 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**

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, 2020 and 2019, 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 17.

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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, 2020							
ASSETS							
Cash and cash equivalents	4,017	-	-	-	-	13,867	17,884
Financial liability at fair value through profit or loss	-	-	-	-	-	2,509	2,509
Loans to customers	57,304	53,873	65,274	135,051	4,378	-	315,880
Net investments in leases	18	10	152	2,066	-	-	2,246
Other financial assets	-	-	-	-	-	2,542	2,542
	61,339	**53,883**	**65,426**	**137,117**	**4,378**	**18,918**	**341,061**

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
December 31, 2020							
LIABILITIES							
Borrowed funds	273,240	6,604	-	-	-	124	279,968
Debt securities issued	12,725	-	-	-	-	-	12,725
Lease liability	875	896	1,860	8,293	598	-	12,522
Dividends payable	-	-	999	-	-	-	999
Other financial liabilities	-	-	-	-	-	1,840	1,840
	286,840	**7,500**	**2,859**	**8,293**	**598**	**1,964**	**308,054**
Interest sensitivity gap	**(225,501)**	**46,383**	**62,567**	**128,824**	**3,780**	**16,954**	
Cumulative interest sensitivity gap	**(225,501)**	**(179,118)**	**(116,551)**	**12,273**	**16,053**	**33,007**	

	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
	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**	

FOR THE YEAR ENDED 31 DECEMBER 2020 (IN THOUSANDS OF GEORGIAN LARI)

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2020 and 2019. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2020 Average effective interest rate, %			2019 Average effective interest rate, %		
	GEL	USD	EUR	GEL	USD	EUR
Interest bearing assets						
Cash and cash equivalents	6.59%	1.00%	-	5.93%	1.00%	-
Loans to customers	31.52%	20.36%	-	32.85%	22.68%	-
Net investments in leases	35.50%	-	-	-	-	-
Interest bearing liabilities						
Borrowed funds	12.46%	6.13%	-	12.12%	6.42%	-
Debt securities issued	12.55%	-	-	13.05%	-	-

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:

	2020	2019
100 bp parallel fall	1,298	1,093
100 bp parallel rise	(1,298)	(1,093)

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, 2020:

	EUR	USD	Other	Total
ASSETS				
Cash and cash equivalents	1,838	2,959	790	5,587
Loans to customers	-	2,075	-	2,075
Other financial assets	10	137	33	180
Total assets	**1,848**	**5,171**	**823**	**7,842**
LIABILITIES				
Borrowed funds	-	159,021	-	159,021
Lease liability	-	10,757	-	10,757
Other financial liabilities	3	1	-	4
Total liabilities	**3**	**169,779**	**-**	**169,782**
Net position	**1,845**	**(164,608)**	**823**	**(161,940)**
The effect of derivatives held for risk management	**12,070**	**141,032**	**5,866**	**158,968**
Net position after derivatives held for risk management purposes	**13,915**	**(23,576)**	**6,689**	**(2,972)**

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

	EUR	USD	Other	Total
ASSETS				
Cash and cash equivalents	2,024	5,953	1,400	9,377
Loans to customers	-	3,772	-	3,772
Other financial assets	4	121	35	160
Total assets	**2,028**	**9,846**	**1,435**	**13,309**
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)**	**1,435**	**(109,048)**
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**	**1,435**	**4,628**

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The following significant exchange rates were applied during the year:

in GEL	Average rate		Reporting date spot rate	
	2020	2019	2020	2019
USD 1	3.1097	2.8192	3.2766	2.8677
EUR 1	3.5519	3.1553	4.0233	3.2095

A weakening of the GEL, as indicated below, against the following currencies at 31 December 202- and 2019, 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.

	2020	2019
10% appreciation of USD against GEL	(2,004)	99
10% appreciation of EUR against GEL	1,183	172

A strengthening of the GEL against the above currencies at December 31, 2020 and 2019 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, 2020 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							
Borrowed funds	273,240	-	6,604	124	-	279,968	279,968
Debt securities issued	-	12,725	-	-	-	12,725	12,725
Lease liability	358	730	1,095	2,208	9,871	14,262	12,522
Dividends payable	-	-	-	999	-	999	999
Other financial liabilities	1,835	-	-	-	5	1,840	1,840
Total financial liabilities	**275,433**	**13,455**	**7,699**	**3,331**	**9,876**	**309,794**	**308,054**

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**

Geographical risk

As at December 31, 2020 and 2019 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, 2020 Group has borrowed funds of GEL 234,322 thousand, GEL 26,545 thousand and GEL 19,101 thousand received from counterparties registered in Europe, USA, and Georgia, respectively. 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.

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The table below shows an analysis, by expected maturities, of amounts recognized in the consolidated statement of financial position as at December 31, 2020:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Overdue	Total
ASSETS							
Cash and cash equivalents	17,884	-	-	-	-	-	17,884
Financial liability at fair value through profit or loss	2,272	237	-	-	-	-	2,509
Loans to customers	15,431	35,362	119,148	135,050	4,377	6,512	315,880
Net investments in leases	-	18	94	1,950	-	184	2,246
Other financial assets	1,928	-	-	614	-	-	2,542
Total assets	**37,515**	**35,617**	**119,242**	**137,614**	**4,377**	**6,696**	**341,061**
LIABILITIES							
Borrowed funds	273,240	-	6,728	-	-	-	279,968
Debt securities issued	-	12,725	-	-	-	-	12,725
Lease liability	283	592	2,756	8,293	598	-	12,522
Dividend payable	-	-	999	-	-	-	999
Other financial liabilities	1,835	-	-	5	-	-	1,840
Total liabilities	**275,358**	**13,317**	**10,483**	**8,298**	**598**	**-**	**308,054**
Net position	**(237,843)**	**22,300**	**108,759**	**129,316**	**3,779**	**6,696**	**33,007**

The table below shows an analysis, by expected maturities, of amounts recognised 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 12 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**

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Overdue	Total
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**

27. SUBSEQUENT EVENTS

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

- In February 2021, at their contractual maturity, the Group repaid its debt securities issued.
- In February 2021, the Group signed 2 GEL 10,000 thousand loan agreements with JSC TBC Bank;
- In March 2021, the Group signed GEL 3,000 thousand loan agreement with JSC Pasha Bank Georgia and GEL 5,000 thousand loan agreement with JSC Basis Bank;
- In April 2021, the Group signed 2 loan agreements with responsAbility, amounting to USD 5,000 thousand in total and GEL 5,000 thousand loan agreement with JSC Liberty Bank;
- In May 2021, the Group signed USD 5,000 thousand loan agreement with Symbiotics;
- In June 2021, the Group signed USD 2,000 thousand loan agreement with responsAbility, USD 3,000 thousand loan agreement with BlueOrchard, GEL 8,000 thousand loan agreement with JSC Basis Bank and 2 credit line agreements in an amount of GEL 20,000 thousand and GEL 19,900 thousand with JSC TBC Bank and JSC Bank of Georgia, respectively.

In April 2021 certain changes were made to the organizational structure of the Group, for it to better correspond to the Group's strategy and needs. As a result:

- Giorgi Megeneishvili joined the Board of Directors as a Chief Risk Officer (CRO). This directorate is new and includes several key functions, that conducted their duties in the teams of CEO or CBO previously;
- Several departments were rearranged between different Chief Officers' teams;
- Manuchar Chitaishvili is now Chief Peoples' Officer (CPO).

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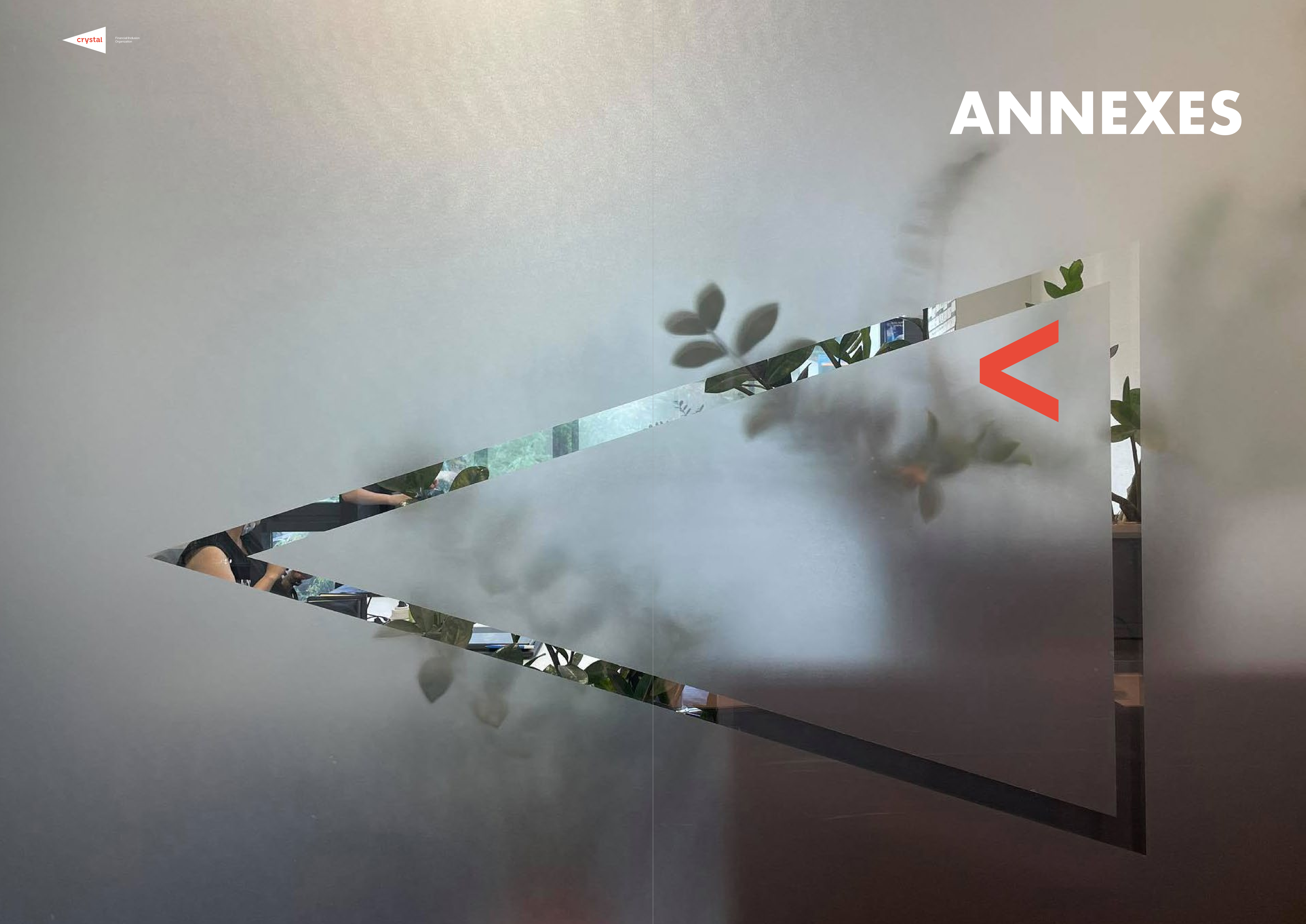


ANNEX 1

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE AS OF 2020

UK Corporate Governance Code

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
E: Workforce policies	Fully
Division of Responsibilities	**3.25**
F: Role of a Chair	Partly
G: Independent members	Not compliant
H: Board effectiveness	Fully
I: Sufficient Board resources	Fully
Composition, Succession and Evaluation	**3.66**
J: Appointment and succession	Partly
K: Combination of skills, re-election	Partly
L: Annual evaluation	Fully
Audit, Risk and Internal Control	**5.0**
M: Effectiveness of audit	Fully
N: Risk disclosure	Fully
O: Internal controls and risk management	Fully
Remuneration	**5.0**
P: Executive remuneration	Fully
Q: Transparent procedure	Fully
R: Independent judgement	Fully
TOTAL SCORE	**4.30**

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

Comments on 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. However, Crystal strengthened the mechanism of the HR Ombudsman, which ensures the neutral adjudication of employee disputes. Furthermore, the HR, Compensation and Remuneration Committee took on board the HR Ombudsman report in 2020, which will become regular practice in the future.

F: While the Chair is separate from the Chief Executive, he cannot be considered independent according to UK Corporate Governance Code, as, being the largest individual shareholder, he has served for over nine years on the Board. Nevertheless, within 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 Chair, 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 Chair) can be categorised as fully independent under 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 Chair has served for over nine years and, as an MFSG representative, has had a 'material' business relationship with the company as a director and shareholder within the last three years.

J: Whilst there is a rigorous appointment procedure for members of the Board, there are no succession plans in place, leaving this criterion 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 Chair of the Supervisory Board in 2018. Crystal does not use any external consultancy for appointing Board members. Therefore, the criterion is partly fulfilled.

For the full text of the code please see: https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code

ANNEX 2

USAID YES-GEORGIA NUMBERS

- Supported more than 4,000 young entrepreneurs and professionals, roughly 60% of whom are women;
- Provided professional skills training to almost 1,400 young people;
- Mobilised $230,500 from JSC MFO Crystal to support youth-owned microenterprises and start-ups;
- Assisted over 400 young people in drafting business proposals and applying for financing;
- Launched the Youth Micro Equity mechanism, which has already provided financing to 69 youth-owned pilot enterprises;
- Offered a special program to promote entrepreneurship in schools, benefitting up to 800 schoolchildren, with a female majority and 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;

Overall, since 2016, the USAID YES-Georgia program has supported more than 4,000 young entrepreneurs and professionals, the majority of whom are women.

Between 2015-2020 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 program was to increase opportunities for self- and waged employment in Georgia's youth (aged 16-28), through enabling youth-led enterprises, the innovative delivery of relevant skills, and creating new discourses that contribute to economic empowerment.

In 2019, a new female component was added to the program with financial aid from the White House-led Women's Global Development and Prosperity (W-GDP) initiative. At present, the goal of the program – entitled Supporting Youth and Women Entrepreneurship in Georgia (USAID YES-Georgia) – is to increase the number of female entrepreneurs by helping them develop business skills and capacity through innovative access to finance, knowledge and expertise. Over the next four years, the USAID YES-Georgia program will continue to support youth and female entrepreneurs with a $840,000 investment from USAID and the W-GDP.

With this funding are fresh female entrepreneurship development goals, including two new components to the program: Buzz Georgia and Business Services for women entrepreneurs. Buzz Georgia is a franchise of Buzz Women international that focuses on the capacity development of rural women through training in leadership, entrepreneurship and financial literacy. With up to 500 women having already participated in Buzz Georgia training courses.

In addition, the program increases the availability of business services for women, which will help propel their businesses into becoming prominent revenue-generating enterprises.

By the beginning of 2024, USAID 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 the wider growth of the Georgian economy.

ANNEX 3

SOCIAL IMPACT MEASUREMENT 2020

After an unprecedented year, in which the pandemic widened already significant disparities in income, wealth and quality of life between gender, ethnic and socio economic segments, Crystal is proud to have redoubled its efforts to support micro and small entrepreneurs and smallholder farmers throughout Georgia. As a provider of affordable and inclusive financial services in the Country, Crystal has strived over this difficult period to continue to offer its responsible, innovative and green financial solutions, in combination with expertise to underwrite economic success for its customers and assist them in realizing their business potential, reach financial stability and improve their living standards.

In support of this goal and to better understand the impact of Crystal's activities on the economic well-being of its clients, the management team, board and investors have sought to collaborate with internationally renowned partners to strengthen its impact measurement and management capabilities. As an institution, we hope to set the bar high for our clients, community, staff and stakeholders and promote transparency and rigor in impact measurement and management. We hope this report provides a valuable understanding for all of our partners not only on the impact of the pandemic on communities across Georgia, but the measures taken by Crystal to mitigate those impacts and build stability and support resilience for our clients.

On behalf of the E&S Committee, we look forward to your review of the report and continued partnership with Crystal.

Aleem Remtula

Supervisory Board Member
Chair of E&S Committee

Section 1: Methodological Approach

Objective: Understand and measure the impact of Crystal´s credit products on clients´ businesses and households.

Every one or 2 years since 2017, Crystal conducts in-depth client surveys. The main objective of the SIM is to measure the social impact and track progress towards its social missions and the Sustainable Development Goals (SDGs).

This year, the sample was based both - on business as well as on non-business loans.

Method: a rich combination of existing and new data on customers

The analysis has been conducted with a combination of data:

- Existing MIS data (138000 outstanding loans as of September 30, 2020)
- Quantitative survey (401 + 16 on SME, structured telephone survey; February-March 2021)
- Qualitative survey (45 in-depth interview, conducted via MS Teams; February – April 2021)

Details of the methodology

The most recent social impact measurement (SIM) was conducted in collaboration with CERISE, supported by Incofin agRIF technical assistance. Crystal, with the help of its impact-oriented investors as well as the most knowledgeable international players like CERISE, is pushing the frontiers of social outcomes measurement by supporting the use of rigorous, data-driven methods to track the impact.

The methodological approach for the Social Impact Measurement 2020 was designed and developed by the French organization CERISE, coordinated by the Crystal´s Environmental and Social Department, in close collaboration with the relevant business departments. The *theory of change* and the conceptual framework used in 2020 was also well-tested during the previous years' social impact measurements.

Mixed sources of information

The mixed method research design - a combination of existing data from the MIS, qualitative and quantitative surveys - was applied in this measurement, which helped to collect the data and analyze Crystal´s contribution to its clients' social impact. The business segment included clients of SME, Micro Business and Agro loans; Non-business segment included clients with the Consumer, Housing, Installment and Pawnshop loans.

Methodology

Population size:	16151 clients
Sample size:	401 (+16 SME) respondents
Confidence Level:	95%
Margin of error:	5%
Response rate:	39%
Fieldwork Period:	February 20 – March 24,2021

Research method: Quantitative Mass survey

Type of the survey: Structured telephone interview

Research tool: A questionnaire

Sampling frame: the full of active borrowers (unique clients) as of the end of December 2018

In order to execute new clients and distinguish Crystal's Impact from the results of external factors such as the ongoing COVID crisis, the measurement's target segments (general population) were business and nonbusiness clients (1) having an established relationship with Crystal for at least two years, who had taken out at least one loan from Crystal no later than one year before the COVID-19 pandemic, (2) with a credit limit of more than 500 GEL – because of these 2 criteria the sampling frame was 16151 clients (many of them with more than one loan).

Sampling type: satisfied. The general population was divided into 7 strata according to the product grou.

Sampling method: probability sampling (random). From each stratum, a sample was selected at random – through simple random selection, in particular by the method of random numbers.

ANNEX 3 - SOCIAL IMPACT MEASUREMENT 2020

Demographics

Product Group	Sampling Frame Number of Clients	%	Sample Number of Clients	%
SME Loan	728	4.5%	18	4.5 %
Agro	2,704	16.7%	67	16.7 %
Micro Business	3,535	21.9%	88	21.9 %
Pawnshop loan	1,858	11.5%	46	11.5 %
Consumer	1,769	11.0%	44	11.0 %
Housing	2,084	12.9%	52	13.0 %
Installment	3,473	21.5%	86	21.4 %
Total	16,151	100%	401	100 %

Business Loans (SME + AGRO + MICRO Business)	43.1%
Nonbusiness loans (Pawnshop + Consumer + Housing + Installment)	56.9%

Product Group is the only parameter (starta) of the population based on which the composition of the sample was selected purposefully

Current Loan Amount Range	Population %	Sample %	Gender	Population %	Sample %
From 0 to 1,000		13%	Female		62.8%
From 1,000 to 3,000		30.8%	Male		37.2%
From 3,000 to 10,000		12.4%			
From 10,000 to 25,000		17.1%			
From 25,000 to 100,000		22.1%			
		4.5%			

The qualitative survey

The quantitative data collection was followed by qualitative data collection (45 in-depth interviews), to obtain some trends, details, experiences and to provide better understanding and explanation of the quantitative results.

The pool of the qualitative survey participants´ was defined in a way that we got representatives of all the main types of clients by region, type of loans, gender, age, history with Crystal, repayment experience, individual or legal entities. Because of the limitations of the global pandemic, this year's qualitative survey was conducted via Microsoft Teams. **The main challenge of this year's qualitative survey was** the low level of internet usage among customers aged over 50, especially in the rural areas.

Section 2: Financial inclusion by Crystal

Crystal mission statements on clients: "We support micro and small entrepreneurs and smallholder farmers throughout Georgia…"

Strong focus on rural areas, women and youth

From MIS data, we observe that Crystal reaches:
- 56% of rural clients; 30% of them with agriculture as the main source of income
- 59% of women
- 30% of young adults (below 35) who get 24% of the loan portfolio

Clients belong to not so vulnerable families

High level of education

Level of education (n=401)

Higher: Master (Postgraduate)	10.5%
Higher: Bachelor (Institute, University)	26.6%
Incomplete higher education	3.2%
Vocational (Technical, Professional College)	22.6%
Secondary (up to 11/or 12 years education)	34.9%
Incomplete secondary (upto 9 years of education)	1.7%
Primary (up to 4 years of education)	0.2%
No primary education	0.2%

Source: SIM, quantitative survey, March-April 2021

Diversified and stable sources of income

Sources of your family income (n=401, multiple choice question)

Money from family members, relatives, or friends living elsewhere in this country	1.5%
Money from family members, relatives, or friends living elsewhere in another country (remittances)	21.1%
Pensions and/or other social allowance/government benefits	41.6%
Income from renting of property, vehicles, or appliances	0.7%
Income from sevice (except renting of property, vehicles or appliances)	4.6%
Income from trade	7.5%
Income from trade	11.8%
Income from manufacturing	10.3%
Cash sales from agricultural products	40.1%
Salaries/wages	59.6%

Source: SIM, quantitative survey, March-April 2021

- 47% of customer households have at least 2 sources of income
- 21,1% receive income from remittances
- Most of them (59,6%) have wages, and other important sources of income are pensions/ allowances and agriculture.

Support micro and small entrepreneurs in agriculture and services

Support to agriculture and services with SME loans
- Businesses are mostly in agriculture (45,5%)
- and services (38,8%).
- Only 3,6% in production

Mostly informal and microbusinesses
- 70% of informal businesses
- Mainly single-employee business (75,7%)
- 5,7% of Small enterprises (SME with more than 5 staff)

Section 3: Productive, consumption loans and services to clients

Crystal mission statements on products and services: "…As a socially active player, Crystal offers responsible, innovative and green financial solutions, in combination with expertise critical for the customers' economic success"

A large share for consumption and small loans, but significant support for MSME and agriculture

Loans by type	N of loans	% of loans	Loan portfolio	% of loan portfolio
SME Loans	2364	1,7%	69 815 119	22,2%
Agricultural Loans	12061	8,7%	54 545 055	17,3%
Micro Business Loans	14001	10,1%	45 626 257	14,5%
Housing Loans	7004	5,1%	50 850 884	16,1%
Installment Loans	70391	50,9%	39 905 189	12,7%
Consumer Loans	8778	6,4%	26 969 005	8,6%
Pawnshop Loans	23607	17,1%	27 380 302	8,7%

Source: MIS, Dec 2020

- Consumption loans represent 74,4% of the loans, but only 30% of the portfolio
- Productive loans count for 20,5% of the loans but 54% of the portfolio
- Housing loans count for 5,1% of the loans and 16,1% of the portfolio

Results from the qualitative survey:

As for the Nonbusiness loans the following findings should be mentioned:

- High rate of using housing loans in accordance with the loan purposes - for improving household assets and living conditions. 3 families out of 4 who renovated their old houses with the help of Crystal managed to improve **energy efficiency in the buildings as well.**

Section 4: Satisfaction

Customers feel they have easy access to Crystal loans and the positive relations with the organization

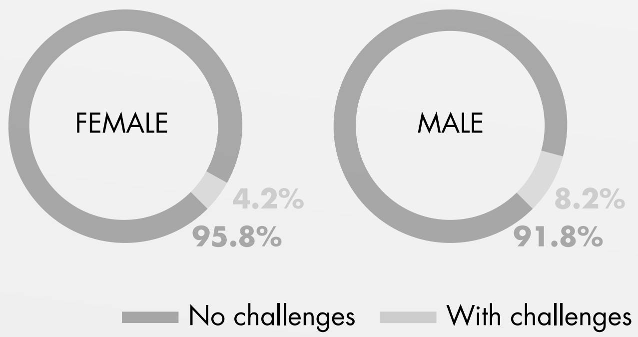
Facing any challenge in obtaining a loan from Crystal (n=401)

Did not change the volume of the loan	**0.2%**
Bureaucracy	**1.0%**
The amount transffered was lost	**0.2%**
Guarantor was needed	**0.5%**
Interest rate was high	**1.7%**
Yes, branch staff/Customer service	**0.5%**
Yes, documentation for loan application	**0.2%**
Yes, bac credit history	**0.5%**
Yes, previous payments	**0.1%**
Yes, self-Constrained Access	**0.4%**
No, I did not	**94.5%**

- Overall, the Survey results show easy access to Crystal's loans

When disaggregated by gender, 95,8% of women say they do not face any challenges with the Crystal's existing services.

Challenges in Obtaining a loan from Crystal * Gender



ANNEXES

Results of qualitative survey

Majority of the clients, who are aware of the higher interest rates and even complain about it, remain loyal to Crystal; and as it was in previous years, Crystal's COMPETETIVE ADVANTAGE is its human resources and customer service - credit officers' *"positive relationships with people"*. As majority of clients mentioned:

- "The quality of service is very good";
- "They give you money quickly";
- "Crystal has very good employees, they explain you all the details thoroughly";
- "They always take your situation close to their heart";
- "they help you in every way"; "Crystal stood by me like a friend";
- "I look at the bank as if it were a shareholder"; "I applied to the loan officer here… he is like my brother and relative";
- "I trust Crystal… here is trust, mutual trust. I can more confidently come to Crystal than to any other bank";
- "They work decently here. I never had any problem, at the same time, Crystal's staff respects me, when you enter the bank, they look at you with respect".
- "There is a cozy atmosphere in Crystal, the quality of service is also very good, all the people working there are educated. You enter the office, pay money, the atmosphere is pleasant, I really like it … nice people, high quality service, simplicity".

Customers feel quite comfortable with loans repayment

Before first lockdown in March/COVID crisis, did you face any challenge in repaying the current loan from Crystal?	**N**	**%**	**F**	**M**
Yes, major/regular challenges	23	5,7%	5,8%	5,5%
Yes, minor/irregular challenges	36	8,9%	8,1%	10,1%
No	339	84,5%	85,3%	83,1%
Refuse to answer	4	1,0%	0,8%	1,3%

- Most of the customers repay without problems (84,5%) (for women, 85,3%)
- Only 14.5% face challenges in repayment

When disaggregated by gender, 41,1% of women say they discussed with Crystal to delay the repayment. Women trust and rely on Crystal when facing problems.

Overall high level of satisfaction from Crystal's clients

Net Promoter Score ®

		N	Detractors	Neutrals	Promoters	NPS
NPS Total		401	9,9%	11,6%	78,6%	69
Current Loan Type	**SME loan*** (with extended sample of 31)	31*	9,7%	9,7%	80,6%	71
	Agro loan	67	5,9%	14,7%	79,4%	74
	Micro business loans	88	22,7%	9,1%	68,2%	45
	Pawnshop loan	46	4,3%	8,7%	87,0%	83
	Consumer loan	44	4,5%	9,1%	86,4%	82
	Housing loan	52	5,8%	13,5%	80,8%	75
	Installment loan	86	8,0%	13,6%	78,4%	70

- Overall, high level of satisfaction, with an average NPS of 69.
- Mostly Microbusiness loans with lower score and most detractors
- Non business loans are satisfactory for clients.

Section 5 – Outcomes and perception of changes, linked to SDGs

8 DECENT WORK AND ECONOMIC GROWTH

Crystal's mission statement on expected changes: "…realizing [customers'] business potential, reaching financial stability and improving their living standards…"

SDG 8: income, asset in business, improved practices, formalization, job creation

Customers with business loans increase production and profit, but not much changes and even decrease for a significant part of them.

Benefits of securing the loan from Crystal for the business (n=173, multiple choice question)

Able to get adequate financial resources (loan, amount, timing, etc.)	0.7%
Start new business (for the first time)	9.6%
Improvevolume of production	43.4%
Able to hire staff to help me	1.5%
Able to pay off high interest debts taken for business	0.3%
Not dependent on informal ways of securing money for the business	0.9%
Bought a new furniture of business equipment	3.9%
Not much has changed	32.7%
Don't know/ Can't say	3.8%
Used for private purposes or the family members	9.5%

Source: SIM 2021, quantitative surveys, business loan sample

- Increase in volume of production for 43,4% (more for men: 45,0%, less for young adults: 38,3%)
- 14,5% of women declare that they have started a new business
- Not much has changed for 32,7% of customers (including for 43,5% of young)

Results from the qualitative survey:

Business loans used by women: the 3 women in the qualitative survey have created their business e.g.: have used agro loans not for investing in agro business, but all of them managed to start a new business, and diversified the sources of family income and increased the family income:

- One of them bought a car for taxi service, provided by her brother in Tbilisi. Income from taxi service is approx. 100 Gel per day.
- Second one bought furniture and domestic appliances for a new apartment in Batumi to prepare it for renting.

The business acquired / improved fixed assets since acquired X credit from Crystal (n=173, multiple choice question)

Refuse to answer	1.2%
None	45.9%
Acquired a vehicle	7.8%
Acquired production facilities: tools and equipment	26%
Renovated an existing building	11.4%
Expanded an existing building	4.7%
Acquired a building	2.4%
Acquired agricultural land	6.4%

- Main acquisition related to production facilities (26%) (and mostly for men :30,5%)
- Female (16,9%) and young (15,2%) have renovated existing buildings

Results from the qualitative survey

Majority of loans have resulted in various tangible outcomes: 7 SME loan clients out of 9, 8 agro loans out of 9 and 6 loans out of 9: acquired or improved business assets, by using the loan or part of the money:

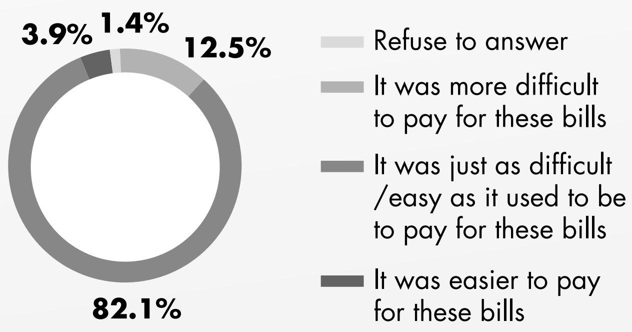
- to purchase and renovate the house they are living in now
- for buying a car for the production delivery resulted in optimizing the delivery costs
- for buying an old house in the touristically attractive area (is going to transform it into guest-house in future)
- for buying a special heavy construction equipment/ machinery to start a new business
- for major renovations of the guest-house and for buying a car, to provide tourists with a transportation service in future, to increase the service capacity and gain more profit
- for buying the equipment and cars for transportation, needed to establish a hazelnut processing plant, to diversify sources of family income and increase business profit
- for buying agricultural machinery to provide with various services to local farmers resulted in service diversification and more profit
- for buying a land for farming to increase production and gain more profit
- for building a new farm building to expand the production capacity of his farm and increase the household income
- to buy a mini-bus for furniture transportation for his own small furniture factory
- to renovate and transform their houses in Svaneti and Kutaisi into guesthouses which will be resulted in business diversification and more profit

1 NO POVERTY

SDG 1: quality of life, new assets, paying bills

Customers are less resilient compared to SIM 2019, but older clients have better results

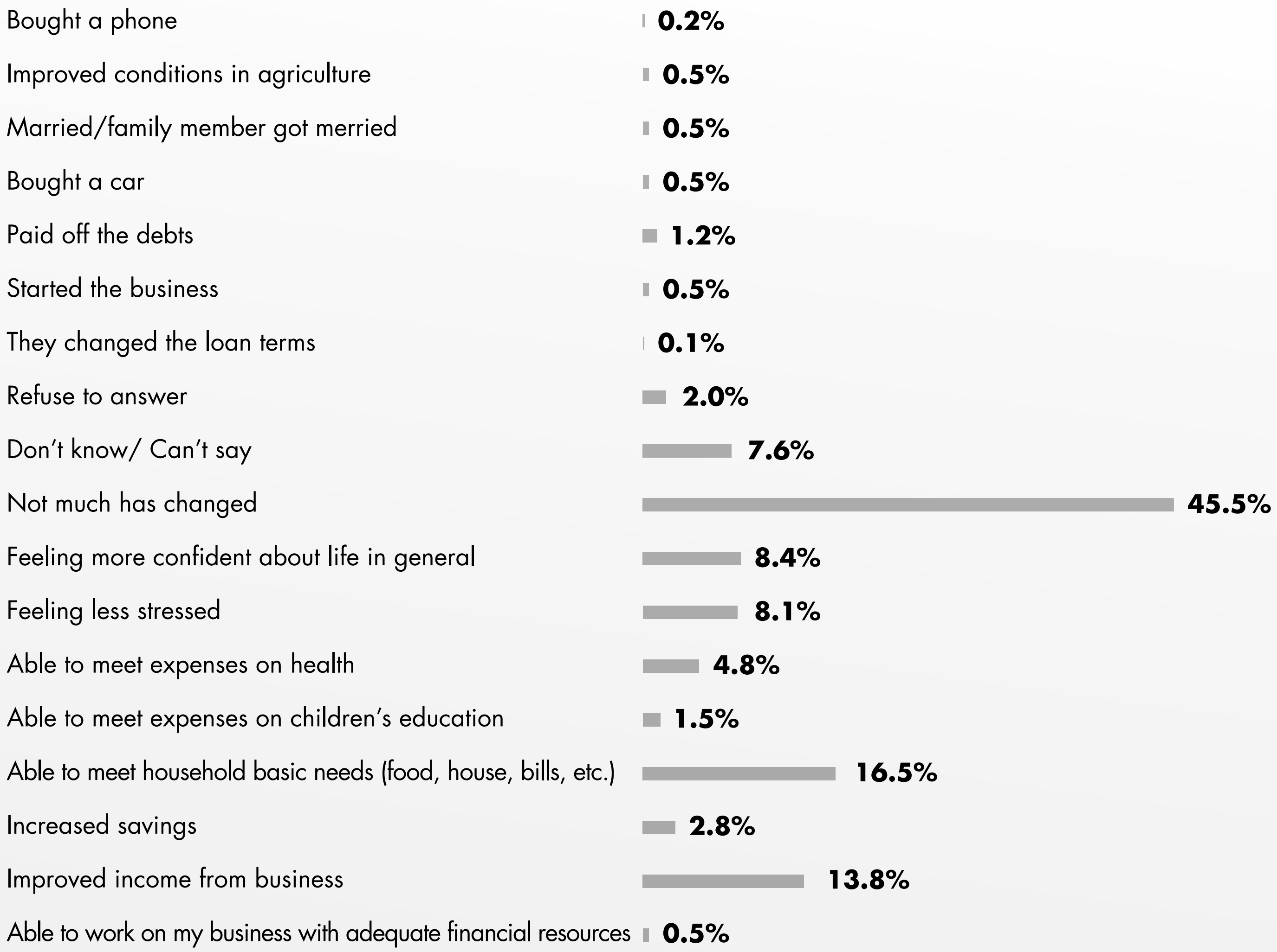
(Before COVID crisis), since acquired the X credit with Crystal, paying for utility bills, such as gas, water, and electricity (n=401)



- Sharp decrease in the share of customer saying it was easier to pay the bills (3,9% – even if we ask "before covid" – compared to 54% in SIM 2019). There is certainly a bias with Covid impact, but this decrease remains an important signal.
- 12,5% say it was more difficult to pay the bills (and it is the case for 15,8% of women against 7,1% of men)
- More pressure for newer clients to pay their bills (15,5% find it more difficult), older clients may be more resilient (only 10,3% find it more difficult)

Perception of changes: concrete and psychological effects combined

(Before COVID crisis) the top 2 positive changes in customer's personal and professional/business life after securing the loans with Crystal (n=401, multiple choice question)



Before Covid, top 2 positive changes (personal and professional) after securing the loans with Crystal?	N	%	F	M	Y
Not much has changed	183	45,5%	45,0%	46,5%	45,1%
Able to meet household basic needs (food, house, bills, etc.), special events (marriage)	71	18,0%	17,8%	15,7%	23,3%
Feeling more confident about life in general/feeling less stressed	68	16,9%	20,5%	10,0%	11,7%
Improved income from business/started business/ improved business	60	15,0%	11,8%	19,7%	7,5%
Able to meet expenses on health	19	4,8%	4,6%	5,3%	2,9%
Increased savings	11	2,8%	2,6%	3,0%	2,3%
Able to meet expenses on children's education	6	1,5%	1,6%	1,3%	0%
Paid off the debts	5	1,2%	2%	0%	0%
Refuse to answer	8	2,0%	2,4%	1,3%	1,5%
Don't know/can't say	31	7,7%	8,3%	6,4%	14,5%

- For 45,5% of the clients, the perception is that not much has changed (and 53,1% if we add those answering that they don't know/can't say – and it adds to 59,6% for young adults)
- 18% have observed changes in meeting household needs
- 16,9% focus on the positive psychological aspect of feeling more confident/ less stressed, and this is particularly true for women (20,5%)
- 15% see improvement in their business, this is particularly the case for men (19,7%)

5 GENDER EQUALITY

SDG 5: specific focus on women

Women are loyal and reliable customers

- MIS data show better quality of portfolio for women (PAR 30=1,48%) compared to men (PAR 30= 2,22%)
- In the quantitative surveys, 85.3% of women declare that they repay without problem
- In case of repayment issues, 41.5% of women said they discussed with Crystal to delay the repayment (vs. 15.3% for men) showing strong relation and trust between Crystal and women customers

Women are entrepreneurs, trusting and valuing Crystal's product and services

	Female	Male
Business loans (1=SME + AGRO + Micro Business)	33,1%	60,0%
Nonbusiness loans (2=Pawnshop + Consumer + Housing + Installment)	66,9%	40,0%

	Not working	Working /hired	Self-emplo-yed	Mixed status
Female	84,5%	68,8%	48,4%	52,6%
Male	15,5%	31,2%	51,6%	47,4%

14,5% of the female borrowers say they started a new business for the first time, against 5,1% of men: Crystal loan helps female customers in launching new activities.

From the qualitative survey:

Magic of women empowerment by business: Majority of women with some past (sometimes negative) experience in business, are more daring and ambitious; have the right money management skills, manage the loan payments efficiently and manage to expand existing business(es) as well as tend to diversify the sources of family income/start a new business, some of them even during the pandemic;

SECTION 6: EFFECT OF COVID-19

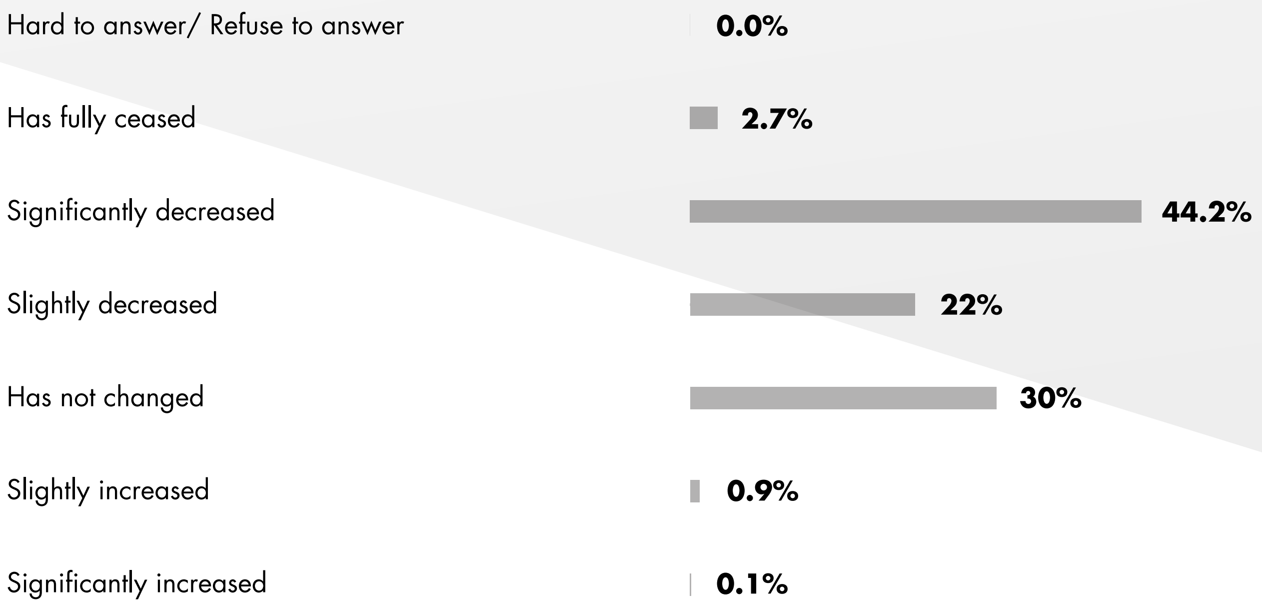
Clients are suffering from the impact of Covid, but the situation is not much worse compared to April 2020

Crystal has conducted two surveys on its clients to understand and adapt to the sanitary crisis

Differences between the surveys

	2020 survey	2021 survey
Fieldwork period:	April 8-14, 2020	February 20 – March 24, 2021
Population/ sampling frame	Full list of active borrowers (unique clients) as of the end of February 2020	All business and nonbusiness clients (unique clients): (1) having an established relationship with Crystal for at least two years, who had taken out at least one loan from Crystal no later than one year before the COVID-19 pandemic, (2) with a credit limit of more than 500 GEL.
Size of the population	84863 clients	16151 clients
Size of the sample	1100 respondents	401 respondents
Confidence Level:	95%	95%
Margin of error:	3%	5%

How your family's overall income has changed as a result of the COVID crisis? (2021, n=401)



Compared to 2020 survey results:

How your family's overall income has changed as a result of the COVID crisis?	2020 (n=1100)	2021 (n=401)
Has increased	0.2%	1%
Has not changed	24.3%	30.0%
Has decreased	63.3%	66.2%
Has fully ceased	12.2%	2.7%
Hard to answer/ refuse to answer	0.1%	0.0%
	100%	**100%**

◄ 30% of clients declare in 2021 that the situation has not changed compared to 24,3% in 2020.

Can you name the reasons that have led to the reduction (or cessation) of your family's overall income? (multiple choice question)	**2020** (N of respondents = 830 I N of answers =1086)	**2021** (N of respondents=276 I N of answers = 356)
Loss of job	26.7%	30.3%
Temporary reduction of salary	20.1%	17.9%
Shutdown of production/business	3.6%	8.8%
Temporary suspension of production/business	38.3%	20.2%
Limited production/business operations	11.1%	9.0%
Reduction in sales	11.2%	26.9%
Suspension/cancellation of pensions or assistance	0.7%	0.4%
Reduction or full cessation of remittances from abroad	12.7%	2.5%
Temporary shutdown of work	5.1%	0
Other (incl deterioration of health – 3,1%)	1.2%	11.7% *
Hard to answer	0.1%	1.1%

For the clients that have seen changes, they are mostly affected by reduction in sales and shutdown of production/businesses.

Conclusion

Based on 2020 Social Impact Survey results, we can say that the **Crystal is continuously committed to stay close to its clients.** Despite the pandemic situation, Crystal has maintained its mission to enhance financial inclusion of people in Georgia and managed to listen to more than 460 clients, sharing their experience and the impact of Crystal on their lives and businesses, with a review of existing data as well as qualitative and quantitative surveys.

The main insights of the 2020 SIM show that, with a strong focus on women, young and rural population, Crystal offers a diversity of loan products. Half of Crystal's portfolio has been dedicated to productive loans, and a significant part also enabled our customers to meet their basic family needs. Thanks to our financial support, our customers have been able to acquire new facilities which helped them boost their activity and production. **Crystal's customer satisfaction's level remained once again remarkably high, which allows Crystal to maintain its competitive advantage on human resources and customer service.**

We believe the social impact measurement results will help the company in taking informed decision to benefit its clients with a focus on business loans, support to better resilience, keep and strengthen Company's **'human touches'/personal relationships with the customers (which customers report to be the most valuable for them, when assessing Crystal and their loyalty towards Crystal),** soft skills, non-financial services to remain committed to answer to its clients' needs and preferences.

Some of the main recommendations from the carried out work can be as follows:

Method: Valuing customer data and the voice of the clients

1. A mix of existing and collected data: Crystal value the data systematically collected from its clients, and make the effort, in spite of the crisis, to regularly come back to its customers to get their direct feedback, with extensive quantitative surveys and in-depth qualitative, open discussions

2. This strong data collection process gives a global picture of clients to triangulate results and identify key data to use on a regular basis (this will help in particular in the design of the newly adopted MIS, Alta)

Focus of analysis: Ensuring data-driven management

3. Regular information, data management embedded in Crystal's organization: a department in charge, a MIS to support, a Board and senior management team eager to understand and hear clients' needs and preferences

4. Segmentation and focused analysis by gender, age, maturity, region, use of products, etc: in depth analysis and segmentation to understand by groups of clients the impact of Crystal products

Strategic and operational consequences: Taking informed decision to benefit the clients

5. Key lessons for product development: Focus and attention on business loans

   a. The client "pathway": from entry/consumption loans to productive loans

   b. Proposing savings to increase clients' resilience Objective: give access to savings products/Savings to increase resilience to shocks, potential focus on families with migrants

   c. More attention to digital products while communicating with youth

6. Key lessons for relationships with clients:

   a. More focus on women: Objective: give more access to women
   Rationale: Women repay better, appreciate access, trust Crystal, create new businesses: can be given more access

   b. Financial literacy and improved communication

      i. Simple and revised interest rate calculation, reduced for productive, agro loans

   c. Value the strong relationships with Crystal => keep and strengthen 'human touches', soft skill, non-financial incentives/services (loyal clients mention that the trust and these reliable, human relationships are the biggest competitive advantage of Crystal).

ANNEX 4

LIST OF ABBREVIATIONS

ALCO	Assets and Liabilities Committee
AML	Anti-money laundering
BCBS	Basel Committee on Banking Supervision
CAR	Capital Adequacy Ratio
CHCA	Charity Humanitarian Centre Abkhazeti
CIS	Commonwealth of Independent States
CSR	Corporate Social Responsibility
DFC	US Development Finance Corporation (former OPIC)
DFI	Development Finance Institution
ERP	Enterprise Resource Planning system
ESG	Environmental Social and Governance
FMO	Dutch entrepreneurial development bank
FX	Foreign Exchange
GEL	Georgian Lari
GCF	Global Climate Fund
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HR	Human Resources
HRMS	Human Resources Management System
IFI	International Finance Institution
IMF	International Monetary Fund
JSC	Joint Stock Company
KPI	Key Performance Indicator
LLC	Limited Liability Company
MFO	Microfinance organisation
MIV	Microfinance Investment Vehicle
MPR	Monetary Policy Rate
MSME	Micro, Small and Medium Enterprise
NBG	National Bank of Georgia
NPL	Non-performing loans
OpEx	Operating Expenses
ROE	Return on Equity
SIDA	Swedish International Development Agency
SME	Small and Medium Enterprise
SMS	Short Messaging Service
SB	Supervisory Board
UN	United Nations
USD	United States Dollar
WEP	Women Empowerment Principles

ANNEXES

crystal

Financial Inclusion
Organization