Qualified Credit Institution Microfinance Organization Rico Express LLC

Financial statements

Year ended 31 December 2020
together with independent auditor's report

Contents

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Independent auditor's report

To the Shareholder and the Supervisory Board of Qualified Credit Institution MFO Rico Express LLC

Opinion

We have audited the financial statements of Qualified Credit Institution MFO Rico Express LLC (the Company), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Other information included in the Company's 2020 Annual Report

Other information consists of the information included in the Company's 2020 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's Annual Report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and Supervisory Board for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Ruslan Khoroshvili

On behalf of EY LLC

Tbilisi, Georgia

13 July 2021

Statement of financial position

As of 31 December 2020

(Thousands of Georgian Lari)

	Notes	2020	2019
Assets			
Cash and cash equivalents	5	115,464	63,473
Amounts due from credit institutions	5	4,639	–
Loans to customers	7	305,997	264,702
Current income tax asset		883	–
Right-of-use assets	9	5,695	1,889
Property and equipment	8	16,072	14,229
Intangible assets		57	31
Other assets	11	11,745	5,371
Total assets		**460,552**	**349,695**
Liabilities			
Derivative financial liabilities	6	2,178	426
Promissory notes issued	12	112,590	109,882
Current income tax liabilities		–	99
Borrowed funds	13	113,584	55,164
Lease liability	9	5,670	1,967
Deferred income tax liability	10	2,027	377
Other liabilities	14	4,277	2,754
Total liabilities		**240,326**	**170,669**
Equity	15		
Charter capital		1,584	1,584
Retained earnings		218,642	177,442
Total equity		**220,226**	**179,026**
Total equity and liabilities		**460,552**	**349,695**

Signed and authorized for release on 9 July 2021

Tamar Gogodze Executive Director

Gulida Sajaia Chief Accountant

The accompanying notes on pages 5 to 36 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2020

(Thousands of Georgian Lari)

	Notes	2020	2019
Interest income calculated using effective interest rate method			
Loans to customers		59,740	54,057
Cash and cash equivalents and amounts due from credit institutions		751	428
		60,491	**54,485**
Interest expense			
Promissory notes		(5,638)	(5,514)
Borrowed funds		(7,225)	(3,982)
Lease liability		(330)	(173)
		(13,193)	**(9,669)**
Net interest income		**47,298**	**44,816**
Expected credit loss reversal/(charge)	7	330	(1,583)
Net interest income after credit loss movement		**47,628**	**43,233**
Commission income from money transfers		6,064	4,935
Foreign exchange gains/(losses):			
- Currency trading		9,171	6,477
- Translation differences		4,971	411
- Foreign currency derivatives		(2,525)	(918)
Gain from sale of repossessed gold and other income	17	3,438	1,540
Non-interest income		**21,119**	**12,445**
Personnel expenses		(11,371)	(9,565)
Depreciation and amortization		(2,621)	(2,078)
Impairment of other financial assets	11	–	(4,081)
Other general and administrative expenses	18	(4,304)	(3,714)
Non-interest expense		**(18,296)**	**(19,438)**
Profit before income tax expense		**50,451**	**36,240**
Income tax expense	10	(7,209)	(6,421)
Profit for the year		**43,242**	**29,819**
Other comprehensive income		–	–
Total comprehensive income for the year		**43,242**	**29,819**

The accompanying notes on pages 5 to 36 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2020

(Thousands of Georgian Lari)

	Charter capital	Retained earnings	Total
1 January 2019	**1,084**	**148,312**	**149,396**
Profit for the year	–	29,819	**29,819**
Total comprehensive income for the year	**–**	**29,819**	**29,819**
Charter capital increase (Note 15)	500	–	**500**
Dividends declared (Note 15)	–	(689)	**(689)**
31 December 2019	**1,584**	**177,442**	**179,026**
Profit for the year	–	43,242	**43,242**
Total comprehensive income for the year	**–**	**43,242**	**43,242**
Dividends declared (Note 15)	–	(2,042)	**(2,042)**
31 December 2020	**1,584**	**218,642**	**220,226**

Statement of cash flows

For the year ended 31 December 2020

(Thousands of Georgian Lari)

	Note	2020	2019
Cash flows from operating activities			
Interest received		59,349	53,508
Interest paid		(12,672)	(9,979)
Proceeds from sale of repossessed collateral		6,375	17,618
Receipts from trading in foreign currency and foreign currency derivatives		8,398	6,001
Commissions received from money transfers		6,064	4,935
Other income received		129	194
Personnel expenses paid		(10,669)	(9,592)
Other operating expenses paid		(4,109)	(3,739)
Cash flows from operating activities before changes in operating assets and liabilities		**52,865**	**58,946**
Change in operating assets and liabilities			
Loans to customers		(42,728)	(55,197)
Other assets		261	3,312
Other liabilities		626	570
Net cash flows from operating activities before income tax		**11,024**	**7,631**
Income tax paid		(6,678)	(5,126)
Net cash from operating activities		**4,346**	**2,505**
Cash flows used in investing activities			
Placements on bank deposits		(4,639)	–
Purchase of property and equipment		(5,136)	(4,188)
Proceeds from sale of property and equipment		2,107	–
Net cash used in investing activities		**(7,668)**	**(4,188)**
Cash flows from financing activities			
Proceeds from increase of charter capital	15	–	500
Proceeds from borrowed funds	24	101,830	35,632
Repayment of borrowed funds	24	(43,685)	(14,564)
Repayment of lease liability	9	(1,346)	(448)
Net promissory notes repaid	24	(10,572)	(7,929)
Dividends paid	15	(2,042)	(689)
Net cash from financing activities		**44,185**	**12,502**
Effect of exchange rates changes on cash and cash equivalents		11,128	2,179
Net increase in cash and cash equivalents		**51,991**	**12,998**
Cash and cash equivalents, beginning	5	63,473	50,475
Cash and cash equivalents, ending	5	**115,464**	**63,473**

(Thousands of Georgian Lari)

1. Principal activities

Qualified Credit Institution MFO Rico Express LLC (the "Company", registration ID: 205034639) was established as limited liability company on 1 July 2004 under the laws of Georgia.

On 11 April 2007 the Company was registered as microfinance organization by the National Bank of Georgia ("NBG") with the registration number #80407. On 26 June 2013 the Company obtained status of qualified credit institution from the NBG.

Legal address of the Company is 70 Chavchavadze ave, Tbilisi, Georgia.

The Company's main activities are issuance of small and medium-sized loans to individuals collateralized by immovable and movable property (mostly precious metals and real estate), currency dealing and money transfers.

As at 31 December 2020 and 31 December 2019, Mrs Dali Urushadze was the sole owner of the Company.

Business environment

The Company's operations are located in Georgia. The Company is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The financial statements reflect management's assessment of the impact of Georgian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

Effect of COVID-19 pandemic

Due to the rapid spread of COVID-19 pandemic in 2020 many governments, including the Georgian Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries.

Support measures were introduced by the Government and the National Bank of Georgia to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidized lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

The Company continues to assess the effect of the pandemic and changing economic conditions on its activities, financial position and financial results.

To the extent that information is available as at 31 December 2020, the Company has reflected revised estimates of expected future cash flows in its expected credit loss (ECL) assessment (Note 7).

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. Derivative financial instruments have been measured at fair value.

The Company's functional and presentation currency is the Georgian Lari (GEL). These financial statements are presented in thousands of Georgian Lari (GEL) unless otherwise indicated.

(Thousands of Georgian Lari)

3. Summary of accounting policies

Changes in accounting policies

The Company has early adopted Amendment to IFRS 16 *COVID-19-Related Rent Concessions,* which provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. No other standard, interpretation or amendment that has been issued but is not yet effective was early adopted by the Company. This amendment did not materially affect the financial statements of the Company.

Several other amendments effective since 1 January 2020 were applied but do not have an impact on the financial statements of the Bank.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date i.e. the date that the purchased asset is delivered to the Company. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

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

Cash equivalents and loans to customers at amortised cost

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

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

The details of these conditions are outlined below.

Business model assessment

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

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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

The SPPI test

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and amounts due from credit institutions on demand and that mature within ninety days of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

In the normal course of business, the Company enters into foreign currency cross currency swaps in the foreign exchange market. The counterparties are mostly local banks.

The fair values are estimated based on pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss within net gains/(losses) from foreign currencies.

Although the Company has derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

Borrowed funds and issued promissory notes

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts promissory notes issued and borrowed funds. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Measurement of financial instruments at initial recognition

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Company determines that the fair value at initial recognition differs from the transaction price, then:

- If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Company recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss within interest income or expense, as appropriate;
- In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Company recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Write-off

Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. Lombard loans together with the associated allowance are usually written off and the collateral is repossessed when the respective loan becomes overdue for more than 60-90 days. Non-performing mortgage loans are written-off when collateral recovery procedures are completed or no further cash inflows are expected from the borrower or collateral, which may take up to 2 years. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Leases

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short−term leases and leases of low value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to certain leases of assets that are considered of low value (i.e., below GEL 15 thousand). Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of the Tax Code of Georgia.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

Precious metals

Gold and other precious metals received as repossessed collateral in settlement of loans from non-performing borrowers are initially recorded cost which equals net carrying value of the extinguished loan at repossession date. Subsequently it is measured at fair value determined at Bloomberg bid prices less expected melting costs. Changes in the fair value after initial recognition and gains/losses from disposal of gold bullions are recorded within other income. As sales of precious metals and other repossessed collateral are incidental to the main revenue-generating activities of the Company, the Company presents the results of such transactions by netting any income with related expenses arising on the same transaction.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	25
Computers and communication	5
Office equipment	5
Vehicles	5
Other	5

Leasehold improvements are depreciated over lower of their useful life and respective lease term.

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Land is not depreciated.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Intangible assets

Intangible assets include computer software and licenses. Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic lives of 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods are reviewed at least at each financial year-end.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest and similar income and expense

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

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

For purchased or originated credit-impaired (POCI) financial assets, the Company calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Fee and commission income

The Company earns fee and commission from money transfers that are recognised on completion of the underlying transaction. Each operation is treated as a separate performance obligation. Settlement of accrued income usually occurs either concurrently with the underlying transaction or within up to 30 days from the transaction date.

Foreign currency translation

The financial statements are presented in Georgian Lari, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss as gains less losses from foreign currencies − translation differences.

Differences between the contractual exchange rate of a transaction in a foreign currency and the National Bank of Georgia exchange rate on the date of the transaction are included in Net gains/losses from foreign currencies.

(Thousands of Georgian Lari)

4. Significant accounting judgments and estimates

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

Estimation uncertainty

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

Allowance for expected credit losses

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

- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as GDP growth rate and collateral values, and the effect on PDs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

As at 31 December 2020, the Company introduced certain changes in its process of estimation of expected credit losses in the context of the ongoing COVID-19 pandemic. The Company revised indicators of significant increase in credit risk and does not by default consider the credit risk to have significantly increased in the case of a loan modification being part of the Government support measures. The Company also updated forward looking information, including forecasts of macroeconomic indicators and collateral values, and respective scenarios' weights. In particular, the Company revised its forward-looking scenarios for expected gold prices to introduce, based on the management's professional judgment, an additional scenario assuming significant decrease in the expected gold price down to the levels observed as at 31 December 2019. Moreover, the Company applied post-model adjustments and additional overlays to the historical default statistics for 2020, the quality and relevance of which was significantly affected by the Government-initiated grace periods, to reflect appropriately the uncertainty associated with the spread of COVID-19 pandemic.

The cumulative effect of post-model and overlay adjustments to account for the effect of COVID-19 outbreak, recognized as credit loss expense in 2020 profit or loss amounted to GEL 264.

Based on the considerations outlined above, the management considers that the effects of COVID-19 outbreak have been property reflected in the Company's ECL estimate as at 31 December 2020. Nevertheless, despite certain deterioration of the credit quality of the Company's loan portfolio due to COVID-19 pandemic, the ultimate amount of resulting expected credit losses expense for the period was offset by significant positive impact of increase in gold prices, which translated to lower LGD on the Company's lombard portfolio.

The amount of expected credit losses in relation to loans to customers recognized in statement of financial position at 31 December 2020 was 665 (2019: 888). More details are provided in Notes 7 and 19.

(Thousands of Georgian Lari)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Leases − determining the lease term of contracts with renewal and termination options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company did not recognize lease liability for the portion of lease payments subject to termination option in periods over 5-10 years (depending on the nature of the underlying assets), which represents a significant judgment. Lease payments subject to termination options expected to be exercised and in respect of which no lease liability was recognized amounted to GEL 7,518 as at 31 December 2020.

5. Cash and cash equivalents and amounts due from credit institutions

Cash and cash equivalents and amounts due from credit institutions comprise:

	2020	2019
Cash on hand	46,854	36,348
Current accounts with other credit institutions	68,610	27,125
	115,464	**63,473**

As at 31 December 2020, GEL 66,867 or 91% (2019: GEL 26,906 or 99%) of current accounts with other credit institutions and amounts due from credit institutions is placed within three (2019: three) Georgian banks that have ratings from B+ to BB- (Fitch).

As at 31 December 2020, amounts due from credit institutions includes GEL 4,639 (2019: nil) term deposit denominated in GEL and EUR, placed in two Georgian banks rated BB- (Fitch) and without external credit rating, respectively. The deposit is pledged as a collateral under GEL 19,049 borrowing from the same bank (Note 13).

Expected credit losses on cash equivalents and amounts due from credit institutions are insignificant and there were no significant movements in ECL during the period. No significant increase in credit risk occurred on current accounts with other credit institution and amounts due from credit institutions since origination.

6. Derivative financial instruments

The Company enters into derivative financial instruments to mitigate currency risk. The table below shows the fair values of derivative financial instruments as at 31 December 2020 and 2019, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2020			31 December 2019		
	Notional	Fair values		Notional	Fair values	
	amount	Asset	Liability	amount	Asset	Liability
Foreign exchange contracts						
Cross-currency swaps − domestic	52,309	−	2,178	31,561	−	426

Cross-currency swaps are contractual agreements between two parties to exchange movements in foreign currency rates based on specified notional amounts.

(Thousands of Georgian Lari)

7. Loans to customers

The Company issues small and medium-sized loans to individuals: mortgage loans secured by real estate, and lombard loans secured by precious metals (mostly gold) and jewellery.

Lombard loans are issued normally from one month to one year period, with an option to roll-over at the mutual agreement of the borrower and the Company.

Loans to customers comprise:

	2020	**2019**
Lombard loans	277,660	231,579
Mortgage loans	29,002	34,011
Gross loans to customers	**306,662**	**265,590**
Less: expected credit losses	(665)	(888)
Loans to customers	**305,997**	**264,702**

Expected credit losses on loans to customers

An analysis of changes in ECL in relation to loans to customers during the year ended 31 December 2020 is as follows:

Lombard loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at 1 January 2020	**400**	**2**	**219**	**621**
New assets originated	549	–	–	**549**
Assets repaid	(481)	(5)	–	**(486)**
Transfers to Stage 1	5	(2)	(3)	**–**
Transfers to Stage 2	(8)	8	–	**–**
Transfers to Stage 3	–	–	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	4	–	**4**
Foreign exchange, change in models and inputs and other movements	(142)	(1)	(151)	**(294)**
At 31 December 2020	**323**	**6**	**65**	**394**

Mortgage loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at 1 January 2020	**52**	**–**	**215**	**267**
New assets originated or purchased	73	–	–	**73**
Assets repaid	(104)	(14)	–	**(118)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	(3)	3	–	**–**
Transfers to Stage 3	–	–	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	7	1	**8**
Amounts written off	–	–	(998)	**(998)**
Foreign exchange, change in models and inputs and other movements	198	54	787	**1,039**
At 31 December 2020	**216**	**50**	**5**	**271**

(Thousands of Georgian Lari)

7. Loans to customers (continued)

Expected credit losses on loans to customers (continued)

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

Lombard loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	**46**	**–**	**36**	**82**
New assets originated or purchased	607	–	–	**607**
Assets repaid	(509)	–	(31)	**(540)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	(1)	1	–	**–**
Transfers to Stage 3	(1)	–	1	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	–	213	**213**
Recoveries	–	–	–	**–**
Foreign exchange, change in models and inputs and other movements	258	1	–	**259**
At 31 December 2019	**400**	**2**	**219**	**621**

Mortgage loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	**143**	**–**	**1,915**	**2,058**
New assets originated or purchased	2	–	–	**2**
Assets repaid	(20)	–	(90)	**(110)**
Transfers to Stage 1	18	–	(18)	**–**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	(7)	–	211	**204**
Amounts written off	–	–	(2,835)	**(2,835)**
Foreign exchange, change in models and inputs and other movements	(84)	–	1,032	**948**
At 31 December 2019	**52**	**–**	**215**	**267**

The significant changes in the gross carrying amount of the loan portfolio that contributed to the changes in ECL in 2020 and 2019 were:

- Increase of Stage 1 lombard loan portfolio as the result of issuance of the new loans;
- Decrease in Stage 1 mortgage loan portfolio through scheduled and early repayments and, for Stage 3 loans, by collateral repossession;
- Write-offs of non-performing Stage 3 loans of GEL 998 (2019: GEL 2,835).

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- Precious metals;
- Real estate.

(Thousands of Georgian Lari)

7. Loans to customers (continued)

Collateral and other credit enhancements (continued)

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the expected credit losses.

As at 31 December 2019, the Company had a right to re-pledge the collateral received under lombard loans in absence of default of customer. As at 31 December 2020, fair value of precious metals held as collateral under lombard loans was equal to GEL 325,625 (2019: GEL 457,702), of which GEL 586 (2019: GEL 1,331) was held in relation to credit-impaired loans.

In absence of collateral, expected credit loss in respect of credit-impaired mortgage loans would have been higher by GEL 4 (2019: GEL 111). For the loans with gross carrying value of GEL 181,409 (2019: GEL 177,912) no ECL has been recognized because of the collateral.

In 2020, the Company repossessed collateral in form of precious metals amounting to GEL 8,458 (2019: GEL 9,262). The Company recognizes repossessed collateral as an asset in its statement of financial position, as it determines that it controls the repossessed assets. The Company's policy is to dispose the repossessed collateral in orderly fashion, which is achieved through either sale at the Company's own shops or by bulk sales on international market (which usually requires prior refinery), depending on the nature of the asset.

As at 31 December 2019, collateral with fair value of GEL 86,020 in form of precious metals pledged by customers under lombard loans was re-pledged under borrowed funds from Georgian banks (Note 14). In 2020, following change in the applicable laws and regulations, the Company is able to pledge only the loans issued, but not the underlying collateral received. As at 31 December 2020, carrying value of loans pledged as collateral under Company's borrowings amounted to GEL 131,232 (Note 14).

8. Property and equipment

The movements in property and equipment were as follows:

	Land and buildings	Computers and com-munication	Office equipment and other	Vehicles	Total
Cost					
31 December 2019	**14,122**	**4,891**	**1,851**	**1,678**	**22,542**
Additions	1,545	1,000	2,268	283	**5,096**
Disposals	(2,002)	–	–	(314)	**(2,316)**
31 December 2020	**13,665**	**5,891**	**4,119**	**1,647**	**25,322**
Accumulated depreciation and impairment					
31 December 2019	**(3,415)**	**(3,007)**	**(915)**	**(976)**	**(8,313)**
Depreciation charge	(584)	(628)	(287)	(140)	**(1,639)**
Disposals and write-offs	688	–	–	14	**702**
31 December 2020	**(3,311)**	**(3,635)**	**(1,202)**	**(1,102)**	**(9,250)**
Net book value					
31 December 2019	**10,707**	**1,884**	**936**	**702**	**14,229**
31 December 2020	**10,354**	**2,256**	**2,917**	**545**	**16,072**

(Thousands of Georgian Lari)

8. Property and equipment (continued)

	Land and buildings	Computers and com-munication	Office equipment	Vehicles	Total
Cost					
31 December 2018	**11,953**	**3,946**	**1,478**	**1,287**	**18,664**
Additions	2,169	945	373	426	**3,913**
Disposals	–	–	–	(35)	**(35)**
31 December 2019	**14,122**	**4,891**	**1,851**	**1,678**	**22,542**
Accumulated depreciation and impairment					
31 December 2018	**(2,885)**	**(2,433)**	**(714)**	**(825)**	**(6,857)**
Depreciation charge	(530)	(574)	(201)	(185)	**(1,490)**
Disposals and write-offs	–	–	–	34	**34**
31 December 2019	**(3,415)**	**(3,007)**	**(915)**	**(976)**	**(8,313)**
Net book value					
31 December 2018	**9,068**	**1,513**	**764**	**462**	**11,807**
31 December 2019	**10,707**	**1,884**	**936**	**702**	**14,229**

The Company's buildings with the carrying value of GEL 951 (2019: GEL 1,486) are pledged as a collateral for the loans obtained from Georgian banks (Note 14).

9. Leases

The Company is a lessee in a number of lease arrangements for buildings that are used by the Company as retail outlets. The agreements are mostly denominated in GEL and USD and have contractual terms from 3 to 13 years, usually subject to termination options at predetermined notice period. The terms of the arrangements usually provide for fixed payments only and do not contain any types of variable payments.

The movements in right-of-use assets were as follows:

	Right-of-use assets (buildings)
1 January 2019	**2,463**
Depreciation charge	(574)
31 December 2019	**1,889**
Additions	4,542
Depreciation charge	(967)
Modifications	231
31 December 2020	**5,695**

The movements in lease liabilities were as follows:

	Lease liabilities
1 January 2019	**2,330**
Interest expense	173
Payments	(621)
Foreign exchange effect	85
31 December 2019	**1,967**
Additions	4,480
Interest expense	330
Payments	(1,676)
Foreign exchange effect	346
Modifications	223
31 December 2020	**5,670**

(Thousands of Georgian Lari)

9. Leases (continued)

The Group had total cash outflow for leases of GEL 1,820 (2019: GEL 650) from which outflows for low value item leases amounted to GEL 144 (2019: GEL 29).

As of 31 December the Company's future cash flows on its lease arrangements comprised the following:

	2020	2019
Not later than 1 year	1,648	587
1 year to 2 year	1,888	527
2 year to 3 year	1,820	468
3 year to 4 year	1,299	387
4 year to 5 year	766	72
Later than 5 years	357	273
	7,778	**2,314**

10. Income tax

The corporate income tax expense comprises:

	2020	2019
Current tax charge	(5,560)	(5,872)
Deferred tax charge/(credit) − origination and reversal of temporary differences	(1,649)	(549)
Income tax expense	**(7,209)**	**(6,421)**

Georgian legal entities have to file individual corporate income tax declarations. Standard corporate income tax rate for companies comprised 15% for 2020 and 2019.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2020	2019
Profit before tax	**50,451**	**36,240**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**(7,568)**	**(5,495)**
Tax exempt income	113	64
Non-deductible expenditures	(229)	(14)
Correction of prior year declarations	90	−
Effect of change in income tax legislation (a)	385	(364)
Change in unrecognised deferred tax assets	−	(612)
Income tax expense	**(7,209)**	**(6,421)**

(a) In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments become effective from 1 January 2017 for all Georgian companies except banks, insurance companies and microfinance organization, for which the effective date is 1 January 2019. On 5 May 2018 amendment was made in the Tax code and the effective date was revised to 1 January 2023. Under the new regulation, corporate income tax will be levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia, rather than on profit earned as under the current regulation. The amount of tax payable on a dividend distribution will be calculated as 15/85 of the amount of net distribution. The companies will be able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008-2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies will not be subject to corporate income tax.

(Thousands of Georgian Lari)

10. Income tax (continued)

Following the enactment of the amendments, the Company re-measured its deferred tax assets and liabilities at the tax rates that were expected to apply to the period when the asset is realised or the liability is settled. As IAS 12 *Income Taxes* requires, the Company used 0% tax rate applicable for undistributed profits in respect of assets and liabilities expected to be realized or settled in the periods when the new regulation becomes effective. As a result of amendments in the tax regulations the Company recognized income tax expense resulting from recognition of deferred tax assets (liabilities in 2019) in net amount of GEL 385 (2019: GEL 364) in profit or loss for the year ended 31 December 2020.

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences		Origination and reversal of temporary differences	
	1 January 2019	**In the statement of profit or loss**	**2019**	**In the statement of profit or loss**	**2020**
Tax effect of deductible temporary differences					
Intangible assets	6	–	6	–	6
Loans to customers	55	(55)	–	–	–
Promissory notes issued	77	(11)	66	61	127
Derivative financial assets	(38)	38	–	–	–
Derivative financial liabilities	34	30	64	263	327
Lease liability	–	–	–	871	871
Other liabilities	–	–	–	26	26
Other assets	249	363	612	–	612
Deferred tax asset	**383**	**365**	**748**	**1,221**	**1,969**
Unrecognized deferred tax asset	–	(612)	(612)	–	(612)
Deferred tax asset, net	**383**	**(247)**	**136**	**1,221**	**1,357**
Tax effect of taxable temporary differences					
Property and equipment	(211)	(285)	(495)	303	(193)
Loans to customers	–	(17)	(18)	(1,730)	(1,748)
Inventories	–	–	–	(839)	(839)
Right of use assets	–	–	–	(604)	(604)
Deferred tax asset (liability)	**172**	**(549)**	**(377)**	**(1,649)**	**(2,027)**

11. Other assets

Other assets comprise:

	2020	**2019**
Other financial assets		
Receivables from money transfer companies	4,371	2,866
	4,371	**2,866**
Other non-financial assets		
Gold bullions	5,312	–
Repossessed jewellery	1,048	1,456
Other	1,014	1,049
	7,374	**2,505**
Total other assets	**11,745**	**5,371**

Expected credit losses on receivables from money transfer companies are insignificant as at 31 December 2020 and 2019. In 2019, the Company recognized expected credit loss and written off receivable from an insolvent money transfer company of GEL 4,081 thousand.

(Thousands of Georgian Lari)

12. Promissory notes issued

As of 31 December 2020 and 2019, the Company had issued short-term (mainly 1 year) interest-bearing promissory notes denominated in GEL, EUR and USD:

Currencies	2020	2019
USD	101,634	91,933
GEL	9,925	17,022
EUR	1,031	927
	112,590	**109,882**

13. Borrowed funds

The Company's borrowed funds comprised of the following as at 31 December 2020 and 2019:

	2020	2019
Borrowings from local commercial banks	109,255	50,164
Borrowings from related party	4,329	5,000
	113,584	**55,164**

As at 31 December 2020 the Company obtained borrowings denominated in GEL from Georgian banks with interest rates ranging from 7% to 15% (2019: from 8% to 14%), both fixed rate and linked to the Tbilisi Interbank Rate (TIBR) (2019: NBG refinancing rate), in total amount of GEL 109,255 (2019: 50,164).

As at 31 December 2020, the Company obtained borrowing of GEL 4,329 (2019: GEL 5,000) from an entity controlled by key management personnel, with fixed interest rate of 11.5% and maturity date in December 2024.

As at 31 December 2020, the borrowings from local commercial banks with carrying value of GEL 62,185 (2019: 31,842) are secured by loans to customer with carrying value of GEL 131,232 (2019: with gold with fair value of GEL 86,020 (Note 7).

The Company's buildings with the carrying value of GEL 951 (2019: GEL 1,486) are pledged as collateral for the loan obtained from Georgian banks (Note 8).

In addition, related party (entity controlled by key management personnel) provided buildings as collateral for GEL 19,049 loan obtained from a Georgian bank.

14. Other liabilities

Other liabilities consisted of the following:

	2020	2019
Other financial liabilities		
Payables related to money transfer activities	2,433	1,379
	2,433	**1,379**
Other non-financial liabilities		
Tax payables other than income tax	1,809	1,375
Other	35	–
	1,844	**1,375**
Total other liabilities	**4,277**	**2,754**

(Thousands of Georgian Lari)

15. Equity

Charter capital represents the nominal amount of capital in the founding documentation of the Company and is subject to state registration. As at 31 December 2020 and 2019, charter capital of the Company amounted to GEL 1,584. In 2019, GEL 500 cash contribution to the Company's charter capital was made.

Dividends

In accordance with Georgian legislation the Company can distribute dividends from its annual or semi-annual profits.

In 2020, the Company declared and fully paid GEL 2,042 (2019: 689) dividends to the shareholder.

16. Commitments and contingencies

Legal

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

17. Gain from sale of repossessed gold and other income

Gain from sale of repossessed gold and other income comprises:

	2020	2019
Gain from sale and revaluation of repossessed gold	1,996	1,101
Recovery of taxes other than income tax	820	155
Gain from disposal of property and equipment	493	9
Other	129	275
	3,438	**1,540**

18. Other general and administrative expenses

Other general and administrative expenses comprise:

	2020	2019
Communication and utility	853	980
Charity and other expenses related to COVID-19	439	–
Legal and consulting costs	393	249
Stationery expense	359	185
Occupancy and rent	306	242
Security costs	278	287
Advertisement cost	262	377
Impairment of other assets	261	–
Repair and maintenance of property and equipment	234	196
Bank commissions	75	72
Business trip expenses	64	253
Representative expenses	25	72
Operating taxes	–	160
Other	755	641
	4,304	**3,714**

(Thousands of Georgian Lari)

19. Risk management

Introduction

Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring. This process of risk management is critical to the Company's continuing profitability. Top management is responsible for and is directly involved in most of the risk management activities. The Supervisory Board of the Company takes appropriate risk management decisions (that cover both financial risks described below, and business risks such as changes in the environment, technology and industry) on its regular meetings that are conducted at least twice a month. Formalized risk management process is currently being developed. The Company is exposed mostly to credit risk, liquidity risk and foreign exchange risk. It is also subject to operational risks.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's maximum exposure to credit risk equals the carrying value of its cash and due from credit institutions (other than cash on hand), loans issued, receivables and derivative financial assets.

Credit risks associated with lombard loans is mainly managed by requesting collaterals for the loans. In addition the Company limits and monitors the amount of lombard loans granted to one borrower (maximum GEL 100 thousand) and there are no individual borrowers with significant balance in relation to the total lombard loans balance.

For mortgage loans the requesting person first fills the loan application which is discussed and analysed by the credit department of the Company. If the application is accepted as eligible by the credit department, then the face-to-face interview with the customer is conducted by the Company's director and the chairman of the supervisory board. If the Company's director and the chairman of the supervisory board conclude that the credit risk for this client is at acceptable level then the property subject to mortgage is assessed and the mortgage loan is issued in the amount not exceeding 30% of the property's liquidation value, which is the estimated amount which can be received selling the asset more quickly than it would be for unforced sale to independent willing buyer.

For a lombard loan, if the borrower fails to pay for more than 30 days the Company sends official warning letter to the customer and if the borrower still fails to pay amount due for 60 days, then the Company repossesses the collateral.

For mortgage loans, the official warning letter is sent if the borrower fails to pay for more than 15 days and the letter is also published in a newspaper. If the borrower fails to pay amounts due on time the Company's personnel contacts the client via phone call or SMS and request to cover the amount. Normally, the Company goes to court requesting sale of collateralized immovable property only when the loan is more than 120 days overdue. Though there are some cases, when the Company tries to re-negotiate loan terms with client to avoid selling mortgaged property. Normally, the courts satisfy the Company's request and the assets are sold to cover the amount owed by borrower to the Company, but often penalties are not covered. Court dealings may take about a year and the enforcement process may take three more months.

Expected credit loss for other financial assets except for loans to customers is estimated as immaterial mostly due to short period of exposure to credit risk.

The effect of collateral and other risk mitigation techniques is shown in Note 7.

(Thousands of Georgian Lari)

19. Risk management (continued)

Credit risk (continued)

Impairment assessment

The Company calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

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

Stage 1: When loans are first recognised, the Company recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

PD estimation process

PD is estimated through macro model, which describes relationship between historical PDs for lombard and mortgage portfolios and macroeconomic variables such as real GDP growth and XAU/GEL exchange rate. Based on estimation results and predicted macro variables provided by the NBG PDs are forecasted. The model is re-estimated annually, and other macroeconomic variables are incorporated if they improve explanatory power of the model.

In case the historical default statistics is not considered fully representative of the credit quality of the loan portfolio (for example, due to the effects of Government-initiated grace periods or low number of default observations), the management might apply, based on their professional judgment, overlay adjustment to those historical statistics in order to arrive to PD estimates the management considers to be the best estimate of probability of default as at the reporting date.

(Thousands of Georgian Lari)

19. Risk management (continued)

Credit risk (continued)

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation. To calculate the EAD for a Stage 1 loan, the Company assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Company determines EADs as current gross carrying value of the financial asset. The effect of expected prepayments is deemed to be immaterial considering relatively short term structure of the outstanding loan portfolio as at the reporting date.

Loss given default

LGD values are reassessed regularly. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Company has 2 portfolio segments – lombard and mortgage loans. For mortgage loans, the Company historically collected loss data and statistically calculated LGD based on historical loan recovery data and takes into account historical losses incurred on unsecured exposures. For lombard loans, LGD was estimated with reference to fair values of gold collateral held as at the reporting date or, where appropriate, to their average values for the reporting period.

Where appropriate, further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for lombard portfolio, such as forecasted gold prices. When assessing forward-looking information, the expectation is based on multiple scenarios, which are revised regularly For mortgage portfolio, incorporation of forward-looking information is deemed to have immaterial effect on LGD.

Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition. The Company considers an exposure to have significantly increased in credit risk when the overdue days exceeds 30.

The Company also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as the account becoming restructured due to credit event (but excluding restructurings arising from Government-initiated grace period programs).

The Company assesses ECLs on its loan portfolio only on a collective basis as all of the Company’s loans are considered individually insignificant. The Company identifies groups of loans that share similar credit risk profile based on product (lombard and mortgage), currency (GEL or foreign currency), and number of overdue days.

Forward-looking information and multiple economic scenarios

In its ECL models, the Company relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth;
- Foreign exchange rates;
- Gold price.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements.

(Thousands of Georgian Lari)

19. Risk management (continued)

Credit risk (continued)

The Company obtains the forward-looking information, except for gold price, from the NBG. Forward-looking gold prices are determined with reference to publicly available forecasts and historical volatilities and observations of gold price. The tables below show the values of the forward-looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario as at 31 December 2020 and as at 31 December 2019.

Key drivers As at 31 December 2020	**ECL scenario**	**Assigned probabilities, %**	**2020**	**2021**	**2022**
GDP growth, %					
	Upside	25%	-4.5%	6.0%	5.0%
	Base case	50%	-5.0%	5.0%	4.5%
	Downside	25%	-6.0%	1.0%	4.0%
USD/GEL exchange rate change					
	Upside	25%	0.0%	-5.0%	-5.0%
	Base case	50%	0.0%	0.0%	5.0%
	Downside	25%	5.0%	15.0%	-5.0%
Gold (XUA) price, USD per tr oz					
	Upside	25%	5.3%	5.3%	5.3%
	Base case 1	25%	-1.7%	-2.4%	-2.4%
	Base case 2	18%	7.1%	0.0%	0.0%
	Downside 1	25%	-5.5%	-5.5%	-5.5%
	Downside 2	8%	-21.3%	0.0%	0.0%

Key drivers As at 31 December 2019	**ECL scenario**	**Assigned probabilities, %**	**2020**	**2021**	**2022**
GDP growth, %					
	Upside	25%	5.5%	6.0%	5.0%
	Base case	50%	4.5%	5.0%	5.0%
	Downside	25%	2.5%	3.5%	4.5%
USD/GEL exchange rate change					
	Upside	25%	-5.0%	-5.0%	0.0%
	Base case	50%	0.0%	0.0%	0.0%
	Downside	25%	10.0%	5.0%	5.0%
Gold (XUA) price, USD per tr oz					
	Upside	25%	5.6%	3.7%	3.7%
	Base case 1	25%	3.6%	0.0%	0.0%
	Base case 2	25%	1.3%	-0.4%	-0.4%
	Downside	25%	-2.1%	3.3%	3.3%

As at 31 December 2020, the management revised its gold price forecasts in light of significant volatility of gold prices observed in 2020, by adding additional downside scenario that assumes return of gold prices to the levels observed as at 31 December 2019. In addition, the management revised the probabilities of gold price forecast scenarios, with higher relative weight assigned to the publicly available forecast published by the World Bank which proved to have better predicted the values based on back-testing analysis performed.

(Thousands of Georgian Lari)

19. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The table below shows the credit quality of loans to customers:

31 December 2020	Note		Past due 0-30	Past due 30-60	Past due 60-90	Past due more than 90	Total
Loans to customers	7						
- Lombard loans		Stage 1	271,883	–	–	–	**271,883**
		Stage 2	4,558	598	–	–	**5,156**
		Stage 3	–	–	278	343	**621**
			276,441	**598**	**278**	**343**	**277,660**
- Mortgage loans		Stage 1	23,592	–	–	–	**23,592**
		Stage 2	5,288	65	48	–	**5,401**
		Stage 3	–	–	2	7	**9**
			28,880	**65**	**50**	**7**	**29,002**
Total			**305,321**	**663**	**328**	**350**	**306,662**

31 December 2019	Note		Past due 0-30	Past due 30-60	Past due 60-90	Past due more than 90	Total
Loans to customers	7						
- Lombard loans		Stage 1	225,742	3,144	–	–	**228,886**
		Stage 2	–	1,305	–	–	**1,305**
		Stage 3	–	–	943	445	**1,388**
			225,742	**4,449**	**943**	**445**	**231,579**
- Mortgage loans		Stage 1	33,685	–	–	–	**33,685**
		Stage 2	–	–	–	–	**–**
		Stage 3	–	–	–	326	**326**
			33,685	**–**	**–**	**326**	**34,011**
Total			**259,427**	**4,449**	**943**	**771**	**265,590**

The Company does not have internal credit rating system to evaluate credit quality of mortgage loans to customers, and manages credit risk based on information about overdue days.

For lombard portfolio, in addition to overdue information, the Company evaluates credit quality based on loan-to-value (LTV) ratio range as at 31 December 2020 and 31 December 2019:

As at 31 December 2020	0-0.3	0.3-0.5	0.5-0.7	0.7-0.9	0.9-1	>1	Total
Stage 1	20,317	11,638	40,694	72,440	51,089	75,705	**271,883**
Stage 2	59	109	587	1,515	696	2,190	**5,156**
Stage 3	3	1	12	75	140	390	**621**
Total	**20,379**	**11,748**	**41,293**	**74,030**	**51,925**	**78,285**	**277,660**

As at 31 December 2019	0-0.3	0.3-0.5	0.5-0.7	0.7-0.9	0.9-1	>1	Total
Stage 1	26,369	6,700	34,157	71,279	61,654	28,727	**228,886**
Stage 2	111	9	83	268	531	303	**1,305**
Stage 3	185	3	35	274	431	460	**1,388**
Total	**26,665**	**6,712**	**34,275**	**71,821**	**62,616**	**29,490**	**231,579**

See Note 7 for more detailed information with respect to the expected credit losses on loans to customers.

(Thousands of Georgian Lari)

19. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to funding base represented by promissory notes, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Company expects that it will be able to refinance or roll-over repayment on the earliest date the Company could be required to pay and the table does not reflect the expected cash flows indicated by the Company's promissory notes refinancing history.

31 December 2020	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Borrowed funds	10,574	52,366	49,892	4,074	–	**116,906**
Promissory notes	9,616	19,600	86,421	–	–	**115,637**
Derivative financial liabilities (notional amounts)	18,910	33,399	–	–	–	**52,309**
Lease liability	122	212	1,315	5,772	357	**7,778**
Other financial liabilities	2,433	–	–	–	–	**2,433**
Total undiscounted financial liabilities	**41,655**	**105,577**	**137,628**	**9,846**	**357**	**295,063**

31 December 2019	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Borrowed funds	370	5,865	46,617		–	**52,852**
Promissory notes	32,077	16,339	65,127	–	–	**113,543**
Derivative financial liabilities (notional amounts)	22,031	9,429	–	–	–	**31,460**
Lease liability	50	100	437	1,454	273	**2,314**
Other financial liabilities	1,379	–	–	–	–	**1,379**
Total undiscounted financial liabilities	**55,907**	**31,733**	**112,181**	**1454**	**273**	**201,548**

Market risk

Currency risk

Foreign currency denominated assets and liabilities give rise to foreign exchange exposure. The management controls currency risk by issuing loans and obtaining funding in the same currencies, and entering into foreign currency derivative transactions.

Included in the next tables are the Company's financial assets and financial liabilities at carrying amounts, categorized by currency (presented in GEL equivalents).

(Thousands of Georgian Lari)

19. Risk management (continued)

Market risk (continued)

The following table shows the foreign currency exposure structure of financial assets and liabilities:

31 December 2020	GEL	USD	EUR	RUB	Other	Total
Cash and cash equivalents	27,155	20,570	63,940	2,907	892	**115,464**
Amounts due from credit institutions	3,000	–	1,639	–	–	**4,639**
Loans to customers	262,661	43,457	544	–	–	**306,662**
Other financial assets	–	2,126	1,957	288	–	**4,371**
Total assets	**292,816**	**66,153**	**68,080**	**3,195**	**892**	**431,136**
Promissory notes issued	(9,925)	(101,634)	(1,031)	–	–	**(112,590)**
Borrowed funds	(113,584)	–	–	–	–	**(113,584)**
Lease liability	(3,362)	(2,308)	–	–	–	**(5,670)**
Other financial liabilities	(81)	(1,026)	(1,332)	6	–	**(2,433)**
Total liabilities	**(126,952)**	**(104,968)**	**(2,363)**	**6**	**–**	**(234,277)**
The effect of derivatives held for risk management	–	50,195	(52,373)	–	–	**(2,178)**
Net position after derivatives held for risk management purposes	**165,864**	**11,380**	**13,344**	**3,201**	**892**	**194,681**

31 December 2019	GEL	USD	EUR	RUB	Other	Total
Cash and cash equivalents	28,545	7,909	22,557	3,851	611	**63,473**
Loans to customers	209,857	55,098	635	–	–	**265,590**
Other financial assets	217	1,473	1,301	219	–	**3,210**
Total assets	**238,619**	**64,480**	**24,493**	**4,070**	**611**	**332,273**
Promissory notes issued	(17,015)	(91,938)	(929)	–	–	**(109,882)**
Borrowed funds	(55,164)	–	–	–	–	**(55,164)**
Lease liability	(824)	(1,143)	–	–	–	**(1,967)**
Other financial liabilities	(299)	(523)	(557)	–	–	**(1,379)**
Total liabilities	**(73,302)**	**(93,604)**	**(1,486)**	**–**	**–**	**(168,392)**
The effect of derivatives held for risk management	(20,885)	32,491	(12,032)	–	–	**(426)**
Net position after derivatives held for risk management purposes	**144,432**	**3,367**	**10,975**	**4,070**	**611**	**163,455**

Exchange rate sensitivity analysis

A weakening of the GEL, as indicated below, against the USD, EUR and RUB at 31 December 2020 and 2019 would have increased (decreased) profit or loss by the amounts shown below. This analysis is on pre-tax basis and is based on foreign currency exchange rate variances that the Company 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**	
Currency	**Change in currency rate in %**	**Effect on profit**	**Change in currency rate in %**	**Effect on profit**
USD	15%/(7%)	1,707/(797)	10%/(5%)	336/(168)
EUR	16%/(8%)	2,135/(1,068)	11%/(6%)	1,207/(658)
RUB	16%/(16%)	512/(512)	13%/(13%)	529/(529)

(Thousands of Georgian Lari)

19. Risk management (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows of financial instruments.

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the interest expense for one year on floating rate financial liabilities linked to the TIBR (2019: NBG refinancing rate) as at 31 December.

The table reflects liabilities that are exposed to fluctuation in interest rate risk as of 31 December 2020 and 2019:

	2020	2019
Borrowed funds	10,014	5,804

Interest rate sensitivity analysis

The following table demonstrates the sensitivity to a reasonable possible change in the floating interest rates, with all other variables held constant, of the Company's statement of profit or loss and equity (before tax).

2020		2019	
Change in TIBR, basis points	Effect on profit and equity before tax	Change in the NBG refinancing rate, basis points	Effect on profit and equity before tax
100/(100)	100/(100)	100/(50)	58/(29)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company mitigates operational risk mostly by direct involvement of top management in Company's processes and operations, including assess, authorization and reconciliation procedures.

(Thousands of Georgian Lari)

20. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 19 “Risk management” for the Company’s contractual undiscounted repayment obligations.

	2020			2019		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	115,464	–	**115,464**	63,473	–	**63,473**
Amounts due from credit institutions	4,639	–	**4,639**	–	–	**–**
Loans to customers	290,962	15,035	**305,997**	255,637	9,065	**264,702**
Current income tax asset	883	–	**883**	–	–	**–**
Property and equipment	–	16,072	**16,072**	–	14,229	**14,229**
Right-of-use assets	–	5,695	**5,695**	–	1,889	**1,889**
Intangible assets	–	57	**57**	–	31	**31**
Other assets	11,745	–	**11,745**	5,371	–	**5,371**
Total	**423,693**	**36,859**	**460,552**	**324,481**	**25,214**	**349,695**
Derivative financial liabilities	2,178	–	**2,178**	426	–	**426**
Promissory notes issued	112,590	–	**112,590**	109,882	–	**109,882**
Current income tax liabilities	–	–	**–**	99	–	**99**
Borrowed funds	110,166	3,418	**113,584**	55,164	–	**55,164**
Lease liability	997	4,673	**5,670**	387	1,580	**1,967**
Deferred income tax liability	360	1,667	**2,027**	–	377	**377**
Other liabilities	4,277	–	**4,277**	2,754	–	**2,754**
Total	**230,568**	**9,758**	**240,326**	**168,712**	**1,957**	**170,669**
Net	**193,125**	**27,101**	**220,226**	**155,769**	**23,257**	**179,026**

The table above does not reflect historical pattern of loans to customers and promissory notes issued prolongations, roll-over and refinancing.

21. Fair value measurements

Fair value measurement procedures

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Company’s financial department determines the policies and procedures for fair value measurement for Company’s assets including derivatives. The estimated fair values of all financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

As at 31 December 2020 and 2019, the Company does not have any financial instruments, other than loans to customers and lease liabilities, for which fair value is based on valuation techniques involving the use of significant non-market observable inputs.

(Thousands of Georgian Lari)

21. Fair value measurements (continued)

Fair value hierarchy

The Company measures fair values using the following fair value hierarchy that 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.

The tables below analyses financial instruments value at 31 December 2019 and 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

	Fair value measurement using		
At 31 December 2020	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets and liabilities measured at fair value			
Derivative financial liabilities	–	2,178	–
Assets and liabilities for which fair values are disclosed			
Cash and cash equivalents	46,854	68,610	–
Amounts due from credit institutions	–	4,639	–
Loans to customers	–	–	306,950
Other financial assets	–	4,371	–
Promissory notes issued	–	109,779	–
Borrowings	–	113,584	–
Lease liability	–	–	5,853
Other financial liabilities	–	2,433	–

	Fair value measurement using		
At 31 December 2019	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets and liabilities measured at fair value			
Derivative financial liabilities	–	426	–
Assets and liabilities for which fair values are disclosed			
Cash and cash equivalents	36,348	27,125	–
Loans to customers	–	–	265,677
Other financial assets	–	2,866	–
Promissory notes issued	–	109,654	–
Borrowings	–	55,164	–
Lease liability	–	–	1,967
Other financial liabilities	–	1,379	–

(Thousands of Georgian Lari)

21. Fair value measurements (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2020			2019		
	Carrying value	Fair value	Unrecog-nised gain/(loss)	Carrying value	Fair value	Unrecog-nised loss
Financial assets						
Cash and cash equivalents	115,464	115,464	–	63,473	63,473	–
Amounts due from credit institutions	4,639	4,639	–	–	–	–
Loans to customers	305,997	306,950	953	264,702	265,677	975
Other financial assets	4,371	4,371	–	2,866	2,866	–
Financial liabilities						
Promissory notes issued	112,590	109,779	(2,811)	109,882	109,654	(228)
Borrowed funds	113,584	113,584	–	55,164	55,164	–
Lease liability	5,670	5,853	183	1,967	1,967	–
Other financial liabilities	2,433	2,433	–	1,379	1,379	–
Total unrecognised change in fair value			**(1,675)**			**747**

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid, due on demand or having a short term maturity (less than three months), as well as for floating rate assets and liabilities it is assumed that the carrying amounts approximate to their fair value.

Financial assets and financial liabilities carried at amortized cost

The fair value of loans to customers, promissory notes issued, borrowed funds and lease liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

22. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

(Thousands of Georgian Lari)

22. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

	2020			2019		
	Shareholder	Key management personnel	Other related parties	Shareholder	Key management personnel	Other related parties
Loans outstanding at 1 January, gross	**–**	**78**	**108**	**–**	**57**	**117**
Loans issued during the year	–	101	101	–	39	–
Loan repayments during the year	–	(116)	(84)	–	(18)	(9)
Other movements	–	–	–	–	–	–
Loans outstanding at 31 December, gross	**–**	**63**	**125**	**–**	**78**	**108**
Less: expected credit losses as at 31 December	–	(1)	(1)	–	–	–
Loans outstanding at 31 December, net	**–**	**62**	**124**	**–**	**78**	**108**
Other assets at 1 January	**–**	**–**	**–**	**–**	**–**	**–**
Other assets addition during the year	–	–	765	–	–	–
Other assets sold during the year	–	–	–	–	–	–
Other assets at 31 December	**–**	**–**	**765**	**–**	**–**	**–**
Right-of-use assets outstanding at 1 January	**49**	**–**	**333**	**108**	**–**	**446**
Right-of-use assets addition during the year	67	–	3,039	–	–	–
Other movements	–	–	231	–	–	–
Less: depreciation charge for the year	(69)	–	(321)	(59)	–	(113)
Right-of-use outstanding at 31 December	**47**	**–**	**3,282**	**49**	**–**	**333**
Lease liability as at 1 January	**52**	**–**	**407**	**108**	**–**	**446**
Additions	67	–	3,039	–	–	**–**
Payments of lease liability	(74)	–	(867)	(65)	–	(82)
Interest expense and other movements	9	–	408	9	–	43
Lease liability as at 31 December	**54**	**–**	**2,987**	**52**	**–**	**407**
Borrowings at 1 January	**–**	**–**	**5,000**	**–**	**–**	**–**
Borrowed during the year	–	–	–	–	–	5,000
Repayment of principal and interest	–	–	(709)	–	–	–
Interest expense and other movements	–	–	38	–	–	–
Borrowings at 31 December	**–**	**–**	**4,329**	**–**	**–**	**5,000**
Promissory notes at 1 January	**785**	**10,421**	**712**	**698**	**4,247**	**603**
Promissory notes issued during the year	799	36,274	1,631	766	10,417	711
Promissory notes repaid during the year	(771)	(36,033)	(1,297)	(698)	(4,247)	(602)
Other movements	137	(186)	431	19	4	–
Promissory notes at 31 December	**950**	**10,476**	**1,477**	**785**	**10,421**	**712**

(Thousands of Georgian Lari)

22. Related party disclosures (continued)

Other related parties are mostly represented by close family members of key management personnel and the shareholder and the entities controlled by the key management personnel.

The income and expense arising from related party transactions are as follows:

	For the year ended 31 December					
	2020			2019		
	Shareholder	Key management personnel	Other related parties	Shareholder	Key management personnel	Other related parties
Interest income on loans	–	8	7	–	12	10
Interest expense on promissory notes	(45)	(1,019)	(41)	(37)	(301)	(34)
Interest expense on borrowings	–	–	(350)	–	–	–

Compensation of key management personnel comprised of the following:

	2020	2019
Salaries and other short-term benefits	1,621	1,420

Transactions with shareholder also include dividend payments and charter capital contributions as disclosed in Note 15.

23. Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the ratios established by the NBG in supervising the Company.

As at 31 December 2020 and 2019, the Company complied in full with all its externally imposed capital requirements.

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains healthy capital ratios in order to support its business and to maximize shareholders' value.

NBG capital adequacy ratio

The NBG requires qualified credit institutions to maintain a gearing (equity to assets) ratio of 24% as of 31 December 2020 (2019: 24%). The Company's gearing ratio was as follows as at 31 December:

	2020	2019
Equity	220,226	179,026
Assets	460,552	349,695
Equity to assets ratio as 31 December	48%	51%

(Thousands of Georgian Lari)

24. Changes in liabilities arising from financing activities and other non-cash movements

	Promissory notes issued*	Borrowed funds	Total liabilities from financing activities
Carrying amount at 31 December 2018	**111,305**	**34,860**	**146,165**
Proceeds from issue	–	35,632	**35,632**
Payment of principal	(7,929)	(14,564)	**(22,493)**
Change in accrued interest	2,150	(764)	**1,386**
Foreign currency translation	4,356	–	**4,356**
Carrying amount at 31 December 2019	**109,882**	**55,164**	**165,046**
Proceeds from issue	–	101,830	**101,830**
Payment of principal	(10,572)	(43,685)	**(54,257)**
Change in accrued interest	409	275	**684**
Foreign currency translation	12,871	–	**12,871**
Carrying amount at 31 December 2020	**112,590**	**113,584**	**226,174**

* Proceeds from issue and payments of principal on promissory notes are presented on a net basis as their turnover is quick, the amounts are large, and the maturities are short.

Other material non-cash movements mostly represent repossession of gold pledged as collateral under defaulted loans to customers that amounted to GEL 4,098 for the year ended 31 December 2020 (2019: GEL 16,680).