# ANNUAL REPORT 2020

MBC

# TABLE OF CONTENTS

# MANAGEMENT REPORT
2020

## ABOUT US

JSC Microfinance Organization "Micro Business Capital" (MBC) is an organization operating on the basis of modern, innovative and international standards, which aims to offer customized and affordable financial services to micro and small entrepreneurs and farmers, increase the availability of financial resources and loan products, establish long-term and transparent relationship with customers. MBC as a socially responsible financial institution, is focused on contributing to the sustainable economic development of the country.

## MISSION

MBC's mission is to enable small entrepreneurs and farmers to develop, and to promote the financial stability of micro-businesses through responsible lending.

## GOAL

The company aims to offer available financial services and products to small entrepreneurs and farmers, to establish long-term and transparent relationships with customers.

## VALUES

- Transparency
- Responsibility;
- Partnership;
- Ethical corporate governance;
- Innovation.

# KEY FINANCIAL INDICATORS

₾ 78.2 Million
**+12%**
OF TOTAL ASSETS

₾ 68.6 Million
**+16%**
OF TOTAL LOANS

₾ 17.6 Million
**+5%**
OF TOTAL CAPITAL

₾ 1.5 Million
**-41%**
NET PROFIT

**Number of Branches** 14 (+1)

**Number of Employeers** 182 (+1)

**Number of Customers** 17,562 (+3,217)

In the beginning of 2020, the recognized international German rating company “Scope Ratings” gave a credit rating of B + stable to the microfinance organization MBC. Nowadays Scope's rating B + stable is the highest in the microfinance market. Despite the difficulties caused by the pandemic, MBC maintained its rating unchanged in 2020.

SCOPE B+ Stable

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# APPEAL OF CEO

2020 was a year of difficulties and significant challenges for the microfinance market. Nevertheless, MBC has managed to adapt adequately to the new challenges and has successfully completed 2020. It is through innovative approaches, sophisticated business models, rapid response to changing environments and the joint efforts of our team that we have achieved strong financial, operational and social results, met the challenges of COVID 19 and continued to grow the company. Despite all the difficulties and resistance, MBC managed to increase its assets during the reporting period. At the end of the year the loan portfolio amounted to GEL 68.6 million, which is 16% higher than the same period last year. Total assets increased by 12% and amounts to GEL 78.2 million, total capital increased by 5% and amounts to GEL 17.6 million. Despite the pandemic, we ended 2020 with a profit, where net profit reached GEL 1.5 million. It's remarkable that in terms of risk parameters, the company turned out to be one of the best in the microfinance sector. The total loan impairment ratio was 2.5%, which is only 1.2% higher than the same data for 2019. In 2020, we managed to attract long-term, unsecured loans of GEL 7.9 million from both existing and new international financial institutions, which indicates a clear expression of trust from international partners. In 2020, the international organization **"Scope Ratings"** gave us a credit rating of **B + (stable)**, which is a great success for us. Despite the pandemic, our company maintains a leading position in the ranking and the highest credit rating in the microfinance market. We continue to move forward by developing innovative, digital solutions, providing the best customer service and financial education. At the same time, we remember that the basis of the company's success is our team of employees, who are guided by internationally recognized corporate management principles and ethical norms in their daily activities.

In 2020, MFO "Micro Business Capital" won the "Employee Support during the COVID Pandemic" category of the Georgian Responsible Business Competition "Meliora 2020", which we are especially proud of.

In 2020, new innovative products for the microfinance sector were introduced, control mechanisms were improved, and the degree of corporate social responsibility was enhanced. MBCs team managed to maintain high rates of development and achieve the set goals. Through the joint efforts of the Supervisory Board and the Directorate, the organizational structure was further refined, regional network of service centers was expanded and developed. At the end of the year, MBC was represented by 14 service centers throughout Georgia, and its team consisted of 182 professionals. In 2020, the MBCs team successfully solved existing tasks and set new plans, which would have been impossible without the high competence of the team, corporate culture and the right values. We have created an equal, fair and non-discriminatory work environment, ensured gender balance and identified women's support and empowerment as a priority. The great potential of the company's team will be directed towards continuous development, offering more innovations to the customers and further strengthening the positions in financial market.

## PERSPECTIVES AND FUTURE VISIONS

In 2020, we faced difficult challenges, achieved strong financial results, made progress in all strategic areas, strengthened corporate social responsibility, created even more jobs in Tbilisi and regions, and set ambitious plans for 2021. I would like to express my special thanks to the whole team of MBC for their hard work, dedication and with our shareholders congratulate them our results and achievements. We have all been able to adapt to the new reality caused by the pandemic, together we have continued our company and personal development. I am confident that with modern approaches, with the strong spirit of our staff, directorate and shareholders, we will continue to grow, increase customers' access to financial resources, create jobs, implement social projects and achieve the set goals despite the negative impact of COVID 19.

## MBCS RESPONSE TO COVID 19

For the purpose of preventing the spread of the coronavirus, MBC has taken significant steps in terms of both customer and community support, as well as employee empowerment and protection. At the beginning of pandemic MBC started to develop scenarios for the continuation of activities, identified responsible departments, deadlines, projects and implementation ways, as well as working with MBCs team, customers and partners. In early March of 2020, employees who belonged to high-risk groups switched to remote work mode. They were soon joined by employees whose job specifics did not require being in office. In the shortest period of time software was converted so that employees could work perfectly. In April front office staff took turns working (2 weeks apart). During the emergency, their transportation was fully provided by the company. Remote working mode has not changed in 2021 either. From the beginning of March, it started to take care of the safety of employees and consumers and disinfection works were carried out systematically in the offices. All offices were equipped with the necessary equipment - barriers, information posters, glass barriers. Employees were and are provided with antiseptics, gloves, face masks and special face shields. All offices had a corner where security facilities were located, we used to give customers pens and gloves as a gift, and used disposable pens for service. At the initial stage we did not have enough information about the coronavirus, therefore one of the main challenges was to raise awareness about the virus. We used all communication channels to disseminate the information about Coronavirus among employees and users. MBC was one of the first microfinance organizations that offered customers a grace period. Constant customer support during a pandemic is a very important step. Most of our customers are small entrepreneurs and farmers and the opportunity to take advantage of the grace period was especially crucial for their activities. About 70% of our customers have contacted us to take advantage of the grace period. All applications were approved. The company reduced the interest rate on deferred loans after the grace period by 1% to make it easier for customers to serve their financial obligations. Following the declaration of the state of emergency, MBC suspended the payment of overdue fees on all loans until July. In addition, customers who wished to repay the loan on the old schedule were satisfied without any commission. During the deferral phase, MBC actively cooperated with National Bank of Georgia and received recommendations from international organizations and investors. For some of our customers, maintaining business continuity was a crucial factor for their existence. When some of the financial institutions stopped lending, despite the pandemic, we were able to continue working in all branches throughout Georgia and offer additional financial resources to small businesses. In 2021 with the growth of the loan portfolio, our top priority will be asset quality control and focusing on target with effective risk management. At the same time, the pandemic crisis has further strengthened our digital strategy, identified new opportunities, and accelerated the process of introducing innovative products and services.

**Gia Petriashvili**
Chief Executive Officer

# MACROECONOMICS AND MARKET OVERVIEW

At the end of 2019, a new coronavirus (COVID-19) was detected in China. Although the World Health Organization was aware of some cases as of December 31, 2019, the coronavirus was assessed as a global threat only on January 31, 2020, as significant spread of the virus had not occurred so far. On March 11, 2020, the World Health Organization declared a pandemic due to the rapid spread of coronavirus disease. On March 21, 2020, the Government of Georgia declared a state of emergency across the country to prevent the spread of COVID-19 virus. The spread of the virus has caused significant challenges to the economy and business worldwide. The Government of Georgia has implemented a number of economic measures to mitigate the effects of the COVID-19 crisis, including:

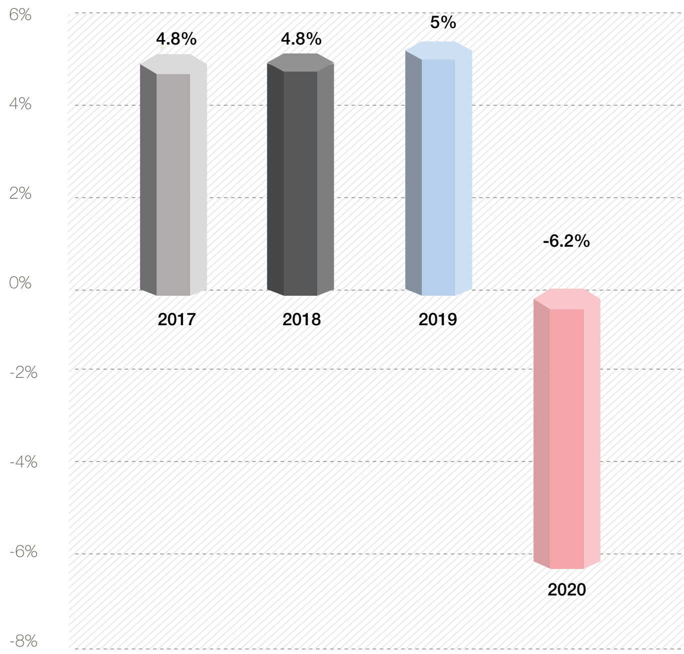
- Tourism-related companies have deferred 4 months of property and income taxes;
- Hotels received co-financing of 6 months' interest on a bank loan;
- On products such as rice, flour, pasta, wheat, oil, etc. prices were subsidized;
- Social benefits were distributed to the vulnerable population and utility bills were financed;
- The National Bank softened banking regulations and introduced new instruments to simplify liquidity delivery;
- The banking sector postponed lending repayment for 3 months (this initiative was joined by MBC).

Despite the measures taken, the pandemic had a very negative impact on macroeconomic indicators, significantly affected the economy, increased unemployment, reduced tourism, devalued the national currency.

## REAL GDP GROWTH

In 2020, the global pandemic caused by Covid-19 dealt a significant blow to the world economy, which affected both the growth of the economy as a whole and individual sectors.
According to the preliminary data of the National Statistics Agency of Georgia, in 2020 Georgia's GDP at current prices increased by only 0.1 billion GEL, while real GDP growth was 6.2%. In previous years the real growth of the country's economy was about 5%.
This decline is significantly higher than the economic forecasts of international financial organizations in early 2020, in particular, the World Bank expected the economic decline in 2020 to be in the range of 2.8-4.4%[1], while the Asian Development Bank forecasted 0% growth[2].
The largest share (14.5%) in the sectoral structure of GDP (14.5%) is occupied by wholesale and retail trade, followed by real estate activities - 11.7%, manufacturing - 10.8%, construction - 8.9%.
Source: Georgian National Statistics Agency

Real GDP g\Growth, Percentage




Source: Georgian National Statistics Agency

Compared to the previous year the following sectors experienced the most significant decrease in the sectoral structure:

- Accommodation and food supply activities decreased by 40.6%;
- Administrative and support service activities decreased by 34.4%;
- Professional, scientific and technical activities decreased by 14.58%;
- Art, entertainment and leisure decreased by 14.14%.

[1] Source: https://www.worldbank.org/en/news/press-release/2020/04/08/in-georgia-real-gdp-growth-projected-to-slow-due-to-impacts-of-covid19
[2] Source: https://www.adb.org/news/georgias-economy-recover-covid-19-impact-2021-45-growth-adb

## CURRENT ACCOUNT

In 2020, the current account of the tax balance of Georgia amounted to $ 1,961 million, compared to the previous year, the deficit increased by 1,004 million GEL. The current account deficit relative to GDP increased from 5.5% in the previous year to 12.3%.

## EXPORT-IMPORT

According to preliminary data for 2020, exports decreased by $ 465 million compared to the previous year and amounted to $ 3,342 million, while imports decreased by $ 1,485 million and amounted to $ 8,031 million. The CIS countries account for a significant share of exports - 45% of total exports, EU countries - 21%, China - 16.6%. They account for a significant share of imports: CIS countries - 30% of total exports, EU countries - 23%, Turkey - 17.5%.

## MONEY TRANSFERS

In 2020, total inward remittances amounted to US $ 1,886 million (annual growth of 8.8%) and outward remittances to US $ 247 million (annual growth of 4%). The distribution of inward remittances by major countries is as follows: Russian Federation - 17.4% of total inward remittances, Italy - 14.3%, Greece - 10.6%, USA - 10.5%. Distribution of outward remittances by largest countries is as follows: Russian Federation - 29% of total inward remittances, Turkey - 17.4%, Ukraine 9%, Azerbaijan 5.9%.

Source: National Bank of Georgia

## TOURISM

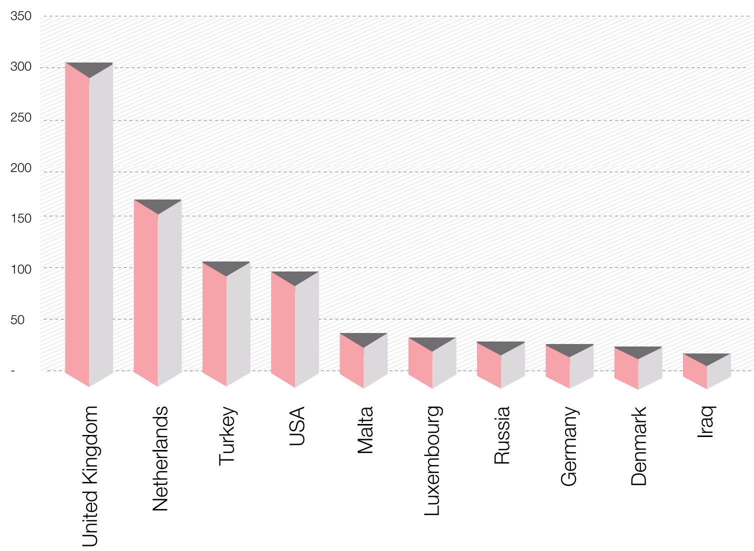
Due to pandemic-induced travel restrictions, the number of visitors of Georgia decreased significantly in 2020 to a total of 91.8 thousand people, which is only 18% of the previous year's data. Visitors were mainly from neighboring countries: 19.3% from Azerbaijan, 18% from Turkey, 15% from the Russian Federation, 14.8% from Armenia.

## FOREIGN DIRECT INVESTMENT

According to preliminary data for 2020, foreign direct investment decreased significantly, for a total of $ 616.9 million in 2020, which is only 47% of the previous year's data ($ 1,310.8 million). Foreign direct investment by country: The largest direct investor in Georgia is the United Kingdom - with almost 50% of total investment, followed by the Netherlands with 28%, Turkey with 17.5% and the United States with 15%.

Source: Georgian National Statistics Agency

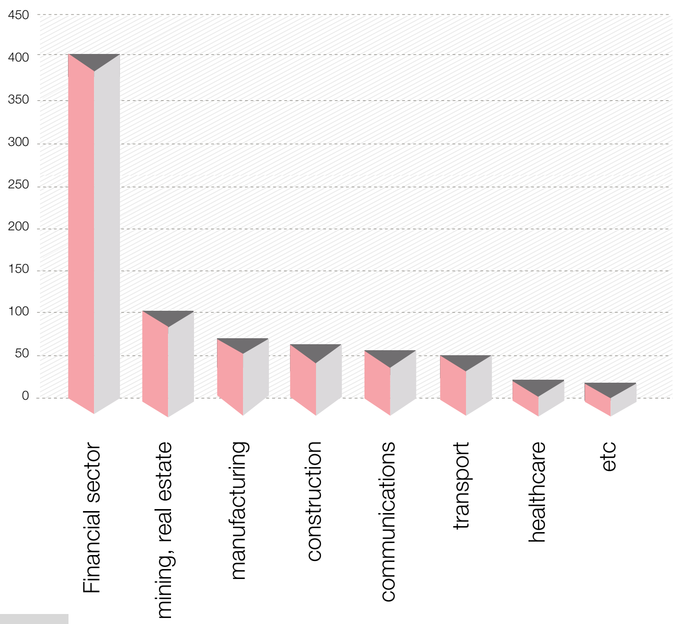
Largest direct investor countries according to 2020 preliminary data (million USD)



Foreign Direct Investment by Sectors: Most of the foreign direct investment in Georgia is attracted by the financial sector - 65% of total direct investment, followed by the mining industry - 16.5%, the real estate sector - 11.6% and the manufacturing - 11%.

Source: Georgian National Statistics Agency

Foreign direct investment in Georgia by economic sectors (million USD)




## EMPLOYMENT, SALARIES

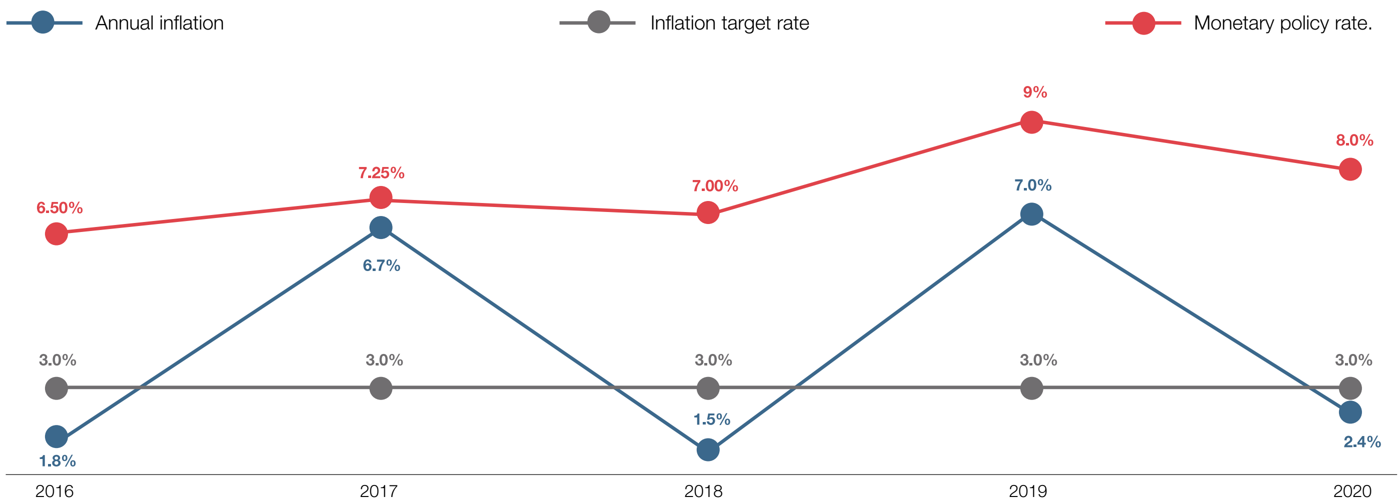
The pandemic also affected the unemployment rate. The number of unemployed people in 2020 amounted to 282 thousand, which is 5,000 more than the previous year, while the unemployment rate increased from 17.6% (in 2019) to 18.5% (in 2020). As for the average monthly nominal salary, in 2020 it increased to 1227.3 GEL, while the previous year the average salary was 1129.5 GEL.

## EXCHANGE RATE AND INTERNATIONAL RESERVES

At the end of 2020, Georgıan Lari depreciated by 14.3% against USD and by 25.4% against the Euro compared to the end of the previous year. The national currency tended to strengthen against the Turkish Lira and the Russian Ruble by 7.5% and 5.15%, respectively. The depreciation of Georgian Lari against the main trading partner countries affected the real effective exchange rate (REER), which depreciated by 7.4% compared to the previous year, while the nominal effective exchange rate (NEER) depreciated by 5.6%. National Bank of Georgia sold a total of $ 873.222 million at foreign exchange auctions in 2020, but did not purchase foreign currency through auctions, while in 2019 the National Bank interventions amounted to $ 92.8 million in sales and $ 165 million in purchases. Nevertheless, the National Bank's official reserve assets at the end of 2020 amounted to $ 3.9 billion, up from $ 3.5 billion at the end of the previous year.

## INFLATION AND MONETARY POLICY RATE

In 2020, annual inflation was 2.4%, which is less than the target of 3%, so the National Bank softened the monetary policy rate to 8% at the end of 2020, which is 1% less than at the end of the previous year.




Source: Georgian National Statistics Agency

## STATE BUDGET

In 2020, the state budget deficit increased even more and amounted to 4.3 billion GEL, while the previous year's deficit was 1.5 billion GEL. Such an increase in the deficit was mainly due to costs increase. The deficit in relation to nominal GDP was 8.6% and exceeded the established 3% mark, which is 5.6 pp more than the 3% mark of the previous year.

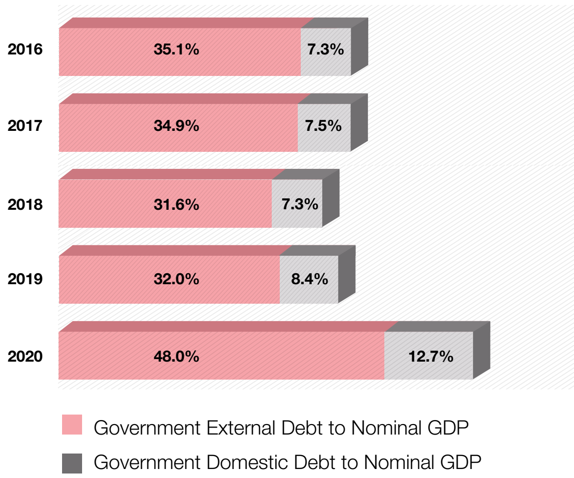
Source: Ministry of Finance of Georgia

## PUBLIC DEBT

In 2020, the amount of public debt increased significantly, and the amount of government debt in relation to GDP exceeded the 60% threshold set by the Law of Economic Freedom and amounted to 60.7%, of which 48% was foreign debt and 12.7% domestic debt. At the end of 2020 the external debt of the Government of Georgia amounted to GEL 24.8 billion, while at the end of the previous year the total external debt was GEL 16.5 billion. At the end of 2020 domestic debt amounted to 6.2 billion GEL, which is 2 billion GEL more than at the end of the previous year.

Source: Ministry of Finance of Georgia

Government Debt to Nominal GDP




## INTERNATIONAL RATING

Despite 2020 was full of challenges for the whole world, including Georgia, the major rating agencies did not change their credit ratings for Georgia, with Moody's -Ba2 stable outlook, S&P-BB rating, stable outlook, Fitch-BB rating outlook changed from stable to negative.

## BUSINESS DOING RATING

In 2020, Georgia (among 190 countries) ranked 7th in the World Bank's Ease of Doing Business. Despite the fact that Georgia's total score in 2020 increased from 83.5 to 83.7 compared to the previous year, the country's position moved from 6th to 7th place in the ranking. New Zealand, Singapore, Hong Kong, Denmark, South Korea and USA are ahead of Georgia.

# ECONOMIC FORECAST FOR 2021

The COVID-19 pandemic has dealt a significant blow to the Georgian economy. Restriction of mobility, sudden cessation of international tourism, pause of leading economic sectors and weak external demand have led to a 6.2 percent economic decline in 2020. Rising unemployment and loss of income increased the poverty rate by about 5.4 percentage points. Fiscal deficit and public debt exceeded the established limit. Nevertheless, the Georgian economy, according to the forecast of international financial organizations, will grow by 3.5% -4% in 2021, and by 5% in 2022.

According to the International Monetary Fund, economic growth in 2021 will be 3.5%, while the inflation rate will be 3.8%[3].

The World Bank forecasts 4% growth in 2021 and 5% in 2022 and announces: "Despite the improvement in the economy in 2021, total output will not return to the level existed before COVID-19 by the end of 2022, which is largely due to unreliable forecasts for international tourism prospects. Economy recovery will be significantly dependent on risks, including protracted vaccination, additional restrictions, tightening of global financial conditions and prolonged political tensions."

"The growth rate of the Georgian economy in the period after 2021 will depend on the implementation of the vaccination program, as well as international trade and investment inflows. For sustainable development Georgia will need to continue to focus on slowing the spread of COVID-19 infection, on large-scale vaccinations, and addressing long-term challenges, including focusing on human capital development, institution building and promotion of digital and green economies," the World Bank said in the South Caucasus. Regional Director Sebastian Molineus" - said Sebastian Molineus, World Bank Regional Director in South Caucasus[4].

[3] Source: https://www.imf.org/en/Countries/GEO

[4] Source: https://thedocs.worldbank.org/en/doc/2e5409c131739aead82fb401a6b1ca03-0080012021/original/Press-Release-WB-ECA-Economic-Update-Georgia-March-2021-GEO.pdf

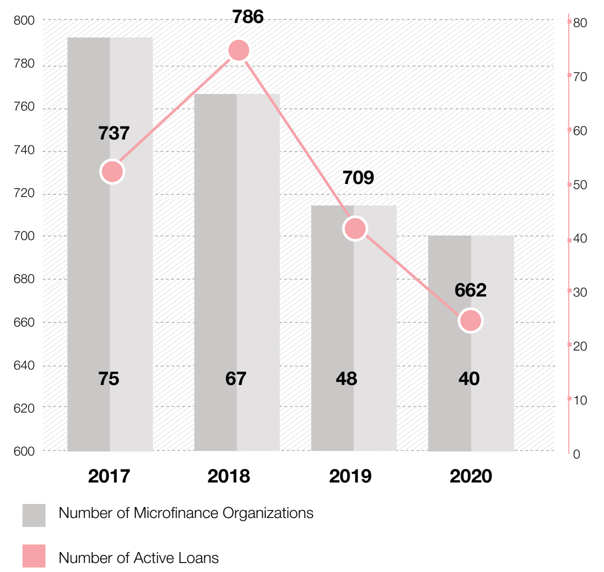
# MICROFINANCE MARKET

Despite the pandemic and the economic decline, the microfinance sector has managed to grow both its assets and its loan portfolio in 2020.

## NUMBER OF MICROFINANCE ORGANIZATIONS AND ACTIVE LOANS

In 2020, the downward trend in registered participants in the microfinance sector continued, which was further facilitated by the pandemic. At the end of 2020, the number of registered microfinance organizations was 40, while at the end of the previous year, there were registered 48 microfinance organizations. In conditions of pandemic, 8 microfinance organizations left the sector. In 2020, the number of active loans in the microfinance sector amounted to 662 thousand, which is a decrease of 6.5% compared to the previous year.

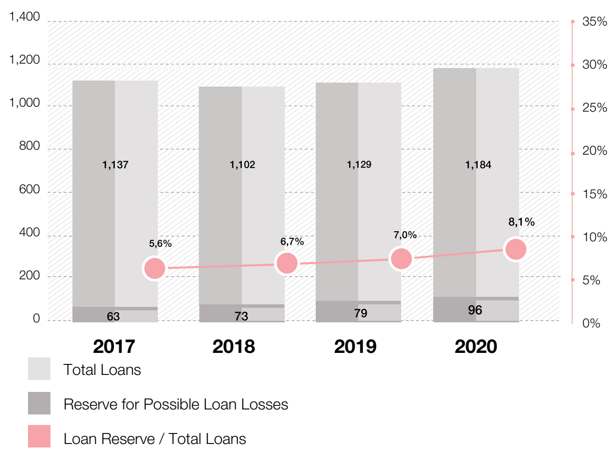
Source: National Bank of Georgia




## MICROFINANCE SECTOR ASSETS AND PORTFOLIO

In 2020, total assets of microfinance sector amounted to 1.5 billion GEL, which is 7.1% more than the previous year. Despite the decline of active lending, at the end of 2020 the total portfolio of the microfinance sector was GEL 1.2 billion, with an annual growth rate of 4.9%.

Total Loans (million in GEL)

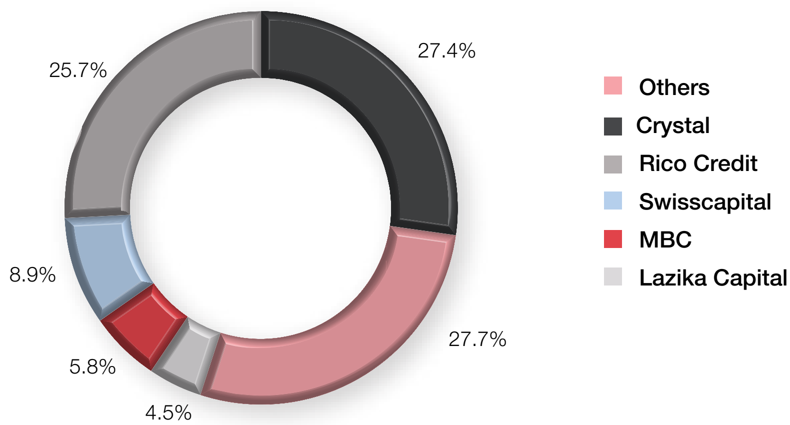



## SECTOR RISKS

As a result of pandemic, risks of the sector increased, which was reflected in the increase of reserve for possible losses. At the end of 2020, the reserve for possible loan losses relative to total loans was 8.1%, which is 1.1% higher than the previous year.

## REDISTRIBUTION OF THE SECTOR

According to the size of the portfolio, the share distribution of representatives of the sector is as follows: Crystal - 27.7%, Rico Credit - 25.7%, Swiss Capital - 8.9%, MBC - 5.8%, Lazika Capital - 4.5%, and the rest 39 occupies 27.4% of the microfinance market portfolio.



## MICROFINANCE MARKET

According to the goal, company's strategy is focused on creating opportunities for the development of small entrepreneurs and farmers and promoting micro-business stability through responsible lending. MBC's competitive advantage is a customer-focused business model that aims to offer the best services in the microfinance sector. The company is guided in its activities by international management standards and advanced practices, constantly develops products and improves services, contributes to increasing access to financial resources. Employee development, investing in their knowledge and corporate social responsibility remain an important part of the strategy. Strategic priorities are:

- Development and effective use of financial products;
- Initiate and introduce innovative approaches in the microfinance sector;
- Improving services;
- Staff development;
- Promoting financial education.

### DEVELOPMENT AND EFFECTIVE USE OF FINANCIAL PRODUCTS

The company is represented by 14 service centers in 7 regions of Georgia. According to the strategy, development of a regional network is planned in the future. MBC customers receive services both in service centers and through digital channels. The service includes a wide range of credit and operating products for both individuals and legal entities. It is planned to improve existing products in both directions, as well as to add new products and services. MBC pays special attention to the development, updating, integration and continuous monitoring of its products and services, internal systems, procedures and various policies. As of 2020, MBC is the leader among microfinance organizations and ranks 4th with its loan portfolio size. The company aims to maintain leadership and ensure promotion. Next year, special attention will also be paid to financial and social ratings. It is important to note that the high credit rating "B + Stable" for MBC in 2020 was due to adequate financial portfolio, profit, management method and positioning in a competitive market. At the same time, one of the factors for achieving a high position was the stable development of the company. Interest income remains the main direction of income generation. The company, in accordance with the strategy, has developed key indicators (KPIs), through which the results of financial and operational activities are measured. These indicators corresponds MBCs strategy and ensure the achievement of set goals and sustainable growth.

### INITIATION AND INTRODUCING INNOVATIVE APPROACHES

The rapid development of technology in the modern environment creates significant new opportunities in terms of accessibility, convenience and efficiency of financial products. It is important for MBC to encourage innovation and facilitate the transformation of interesting ideas into a sustainable financial model, offering new products that enable rapid development. It is especially important to share international experience, introduce innovative products efficiently and offer them to customers. MBC is constantly working to improve digital capabilities, remote products and services, developing innovative solutions to support customers, employees and target groups.

### IMPROVING SERVICES

One of the main goals of the company is constant care for customers and continuous improvement of service quality. A special priority is given to being the best service provider in the microfinance market. For achieveing and successfully implementing this goal, the company constantly studies the needs of customers, conducts relevant surveys, has systematic direct communication with customers and uses feedback channels effectively. Information is analyzed which further helps us to transform products and services according to customer requirements and fix them to their interests. Such an approach allows us to meet the expectations of customers, take into account their requirements and maintain a high standard of service.

### EMPLOYEE DEVELOPMENT

The foundation of company's success and the most valuable asset is the team of employees. This is the reasonn why the management pays special attention to creating safe conditions, promoting development, encouraging, comfortable and friendly working environment. The personnel management strategy is entirely focused on a highly motivated system and the promotion of healthy competition. MBC takes care of the development of employees, helps to maximize their capabilities, creates conditions for their professional development and career advancement. The company financially supports the necessary trainings for professional development. Qualifications and competence of employees are an important factor for the development of the company. MBC team is distinguished by professionalism, knowledge, experience and high motivation.

## PROMOTION OF FINANCIAL EDUCATION

Improving the financial education of Georgian population, especially citizens living in regions, is one of the priority and strategic goals of MBC, as financial education is the basic skill through which financial prosperity and stability are achieved. A sustainable project "Financial Advisor" was created in MBC, within the framework of which the population, entrepreneurs, farmers have the opportunity to receive advice and get acquainted with the relevant content, as well as to attend trainings and workshops. Within the framework of the project, field events are planned in schools and universities. During the pandemic, relevant services were provided to representatives of the affected sectors in the field of tourism, social enterprises and community organizations working in the regions. "Financial Advisor" aims to share the experience and knowledge of the team with the people who need it. Progress, success and sustainable development are important for MBC, therefore, the implementation of the strategy, compliance of the goals and key indicators set by the company are constantly monitored. We aim to provide customers with customized, transparent and high quality services to help them maximize social benefits.

# OVERVIEW OF KEY OUTCOMES

The difficulties caused by the global pandemic in 2020 have had a significant impact on MBC's financial results as well, nevertheless, projected growth rates have been achieved. Total assets increased by **12%** to GEL **78.2 million** by the end of 2020. The main reason of increase in total assets was the **16%** increase in total loans, which amounted to **GEL 68.6 million** at the end of the year. In 2020, it was especially important to meet market demand and maintain an active workflow to provide financial support to borrowers. Although the company had small liquid assets in the third quarter of 2020, it still did not stop its activities and tried not to restrict access to financial resources for small and medium entrepreneurs. MBC was focused on increasing financing for business and agro loans in the regions of Georgia. In response, in 2020, 3 new service centers were opened in different regions of Georgia and customer service was launched at new locations. In parallel with the growth, it was important to keep credit risk at a low level, in response to which internal control mechanisms were tightened and some restrictions were imposed on new customers. As a result of MBC's strict risk policy, at the end of 2020 the total loan impairment ratio was **2.5%**, which was only 1.2% higher than the 2019 data. The depreciation ratio was also kept low relative to the average portfolio, which stood at **1.2%** in 2020 and 1% in 2019.

Along with credit risk management, liquidity management was also a top priority in 2020. The deficit in the third quarter was completely eliminated in the fourth quarter and at the end of the year the average liquidity ratio set by National Bank was **22.5%.** Funds attracted from local and international financial institutions played an important role in liquid funds management. Despite reduced financial investments caused by pandemic, the company was able to attract long-term, unsecured **GEL 7.9 million** (equivalent in USD) loans from both existing and new international financial institutions at a lower rate compared to previous investments. At the end of 2020, funds raised from financial institutions accounted for **75%** of total funds raised.

In 2020, total capital increased by **5%** to **GEL 17.6 million**. No significant investments were made in the authorized capital. In 2020, a portion of the 2019 preferred stock dividend was distributed, amounting to GEL 0.7 million. Retained earnings increased by 1.5 million GEL. As in 2019, the company successfully complied with the National Bank's capital adequacy requirement, with a minimum threshold of 18%, while MBCs rate was **30%** by the end of 2020.

One of the major challenges of 2020 was managing open positions and minimizing hedging costs. In 2020, a 14% devaluation of GEL against USD and an increase in the market price of hedges negatively affected the company's results. Net loss from revaluations and foreign currency conversions was GEL 1.8 million, which was GEL 1.4 million more than in 2019. The negative impact on the company's profitability was mainly due to the loss from the management of foreign exchange positions. During the pandemic, the company was able to effectively manage operating costs, resulting in reduced staff and other operating costs in 2020 compared to 2019 and averaged 9% (-1.9 pp) over the average portfolio. Although the net profit for 2020 was less than the result for 2019, the company was able to maintain high profitability ratios in relation to the market and at the end of 2020 a return on average assets amounted of **2.0%** (-2.1 pp) and a return on average capital amounted of **8.7%** (-7.4 pp).

# KEY RISKS AND UNCERTAINTIES

Risk management is a critical direction and a fundamental priority of the company's activities. The risk management system of the company is based on international standards, best practices and fully complies with regulatory requirements. The Company's risk management is based on the following basic principles:

- Transparent risk management to gain credibility;
- Reasonable risk management to promote company stability and sustainable development;
- Risk management to support the implementation of the company's strategy and goals;
- Risk management to gain the company a competitive advantage. The Company's risk management is based on the following basic principles:
- Transparent risk management for gaining credibility;
- Reasonable risk management for promoting company stability and sustainable development;
- Risk management for supporting the implementation of the company's strategy and goals;
- Risk management for gaining a competitive advantage for company.

All employees of the company are involved in the risk management process. Their responsibilities in this process are clearly defined and described in the company's risk regulations and internal normative documents.

## SUPERVISORY BOARD

Establishment and monitoring of risk management system in the company is carried out by Supervisory Board. The risk management system includes the establishment of a strong risk culture, the definition and operation of a healthy and acceptable risk appetite, clearly defined and written responsibilities and control functions. The company's risk appetite and risk management approaches are defined by "Risk Management Policy" approved by Supervisory Board, which identifies, analyzes, manages, sets appropriate limits, constantly monitors and controls the company's risks. The policy is reviewed regularly by Supervisory Board, taking into account market conditions.

The company's risk management policy clearly defines organizational risk management responsibilities and is based on the "three lines of protection" principles, which include:

**1) Business line** - a line of risk takers, which is responsible for the first identification, assessment, management, monitoring and reporting of risks of the company's products, activities, processes and systems. The first line of protection operates in accordance with the company's risk appetite, policies, procedures and instructions. The business line is regularly trained to raise awareness of the company's risk culture and risk management principles;

**2) Risk Department** - effective implementation of the risk management function in the company is ensured by the Risk Department, which is headed by Chief Risk Officer. The functions and tasks of the department include raising awareness of employees about risk management systems, policies, processes, quantitative models and reporting. All these are the basis of a healthy and effective risk management system and serve the effective implementation of company's strategic goals and risk activities. Risk Department ensures the identification of risk mitigation measures and monitoring of company's operation in defined risk-appetite parameters. For the purpose of risk reduce, based on the identification and analysis of external and internal risk factors, the department ensures the development of procedures and internal normative documents. Risk department is independent from the first line of protection and monitors company's risk-taking processes, assesses risks and related issues independently. The function of Risk department also includes: thorough identification, assessment, monitoring and control of the company's risks, monitoring compliance of processes with legislation, corporate governance rules and domestic policy, direct regular reporting to the supervisory board and directorate;

**3) Internal audit** - Internal audit is independent from the first and second line. The main function of internal audit is assessment the consistency and effectiveness of the company's internal control system, the first and second lines of protection, and the entire risk management framework. Based on the assessment, internal audit makes recommendations to improve the efficiency of risk management system.

## RESPONSE ACTIONS AGAINST COVID-19 CRISIS

- **Employee and Consumer Safety** – MBC as a socially responsible company strictly adhered the recommendations of disease control and healthcare organizations in order to prevent the spread of COVID-19 in its service centers. Each employee is equipped with special face masks, face shields, gloves and disinfectants. All this inventory is available for consumers as well. In service centers, special organic glass separators were installed between customers and employees in order to exclude direct contact as much as possible. Each service center has general recommendations on how to prevent the spread of the new coronavirus, special posters requesting personal hygiene and distance protection, as well as all the necessary safety rules to be considered for customers when receiving the service. The company's head office and service centers regularly carry out disinfection works. Part of the staff is switched to remote working mode. Employee transportation was provided during the period of movement restrictions. Employees who are at high risk due to health conditions, as well as employees whose specifics of work allow it, have switched to remote work mode. The main asset and value of MBC are customers and employees. Therefore, the company's management continuously analyzes the risks, the situation of Georgia and takes effective steps to ensure their safety based on the recommendations of the country's health services.

- **Business Continuity Plan** - As soon as the pandemic was announced, the company developed and approved a business continuity plan, which clearly outlined the specific actions to be taken by the company for preventing the risks posed by the spread of pandemic virus in the country under different possible scenarios. The plan aimed promotion of company's business comfort and risk optimization in different scenarios. In order to prevent coronavirus and mitigate the relevant risks, a reorganization plan was developed if necessary;
- **Loan Deferral Project** - In response to current events and on the base of motivation of customer care, MBC has voluntarily joined a commercial banks' initiative to introduce a grace period for loans, offering customers a three-month grace period. This gave the customer extra time to alleviate the shock caused by the pandemic.
- **MBC "Solidarity Fund"** – was created and approved the statute of the fund, which aims to provide material assistance to employees in case of infection with coronavirus (COVID 19);
- **Loan Forgiveness Project** - MBC has forgiven loans to consumers severely affected by pandemic.

## CREDIT RISK MANAGEMENT

Credit risk is the risk that a customer fails to fulfill its obligations under the contract. Since more than 90% of the company's assets are in the loan portfolio, credit risk is the most important risk for the company. Therefore, prudent management of credit risk is critical for the company. The main prerequisite for creating a healthy and stable portfolio is a balanced credit policy, strong internal control mechanisms, risk diversification and proper team motivation.

- **Portfolio Risk Analysis** - Risk Department continuously conducts portfolio risk analysis to identify the concentration of risks in the portfolio and implement mitigation measures to reduce it. Portfolio risk reporting is submitted to the Directorate on a monthly basis; Portfolio Diversification - Portfolio diversification is one of the most important components of credit risk management. Diversification is based on customer type, geographical area, activity and sector concentration;
- **Loan characteristics** - Company loans are relatively short-term. Loans are denominated in national currency, which reduces borrower's currency risks. Loans are secured, which is an important means of mitigating credit risks;
- **Loan loss reserve** - Creating an adequate reserve is the foundation of credit risk management. In terms of reservation for MFOs, MBC uses a more conservative approach to the principles set by the National Bank of Georgia, this is reflected in the fact that, regardless of the quality of collateral (solid / unsustainable), MBC reserves loans under a more conservative unsustainable scheme.
- **Loans Committee** - Loans are approved by Credit Committee, which is an independent body. The company clearly separates the responsibilities of the parties involved in the credit analysis and credit approval process. The rights of the committee members are defined in the Credit Committee Limits Document. In this document limits are differentiated according to the product, the volume of the loan, the type of collateral and geographical location. The decisions of the Credit Committee are based on the principles of responsible lending, which means that borrower can make the payment on the loan schedule without any financial difficulties. A loan approved by the committee should serve to improve the welfare of the borrower.

## OPERATIONAL RISK MANAGEMENT

- **Operational Risk Framework** –In MBC risks are identified on a regular basis within Operational Risk Management Framework. In relation to the identified risks, risk minimization and control mechanisms are implemented and developed, as well as risk monitoring is carried out;
- **Incident Management** - MBC detects, collects, records and classifies operational incidents based on the methodology of the Basel Committee and complies with the requirements set for commercial banks by the National Bank of Georgia;
- **Compliance** - To ensure full compliance with legal requirements, the company has established appropriate management systems and processes that cover all levels of operations;
- **Employee training** - MBC employees are trained to raise awareness of the risks existing in their work process;
- **Reporting** - A report is periodically submitted to MBC's management on both the work done to minimize the risk and control mechanisms implemented in the various processes across the company, as well as future activities.

## AML/CFT RISK MANAGEMENT

- **Policies / Procedures** - MBC operates AML / CFT policies and procedures that fully comply with requirements of Georgian legislation, as well as the guidelines developed by the National Bank of Georgia and the Financial Monitoring Service, meet the criteria set by FATF recommendations and international best practice;
- **Employee Training** - AML Division provides training to all relevant employees on anti-money laundering issues. These trainings are provided for new employees as well as in the event of changes in Georgian legislation or internal instruction;
- **Reporting** - In order to raise the awareness of MBC management regarding ML / TF risks, a report is periodically submitted to the directorate on the results of AML / CFT control carried out in the company, the measures to be taken and the work performed;
- **Software** - MBC is constantly updating its software to comply with Georgian legislation, automate processes, reduce risks and increase efficiency. The software integrates the Thomson Reuters blacklist module, which consists of international lists of more than 600 criminals, sanctioned, terrorists, and suspected and politically active individuals.

## KEY ACHIEVEMENTS OF 2020:

- The firm and stable risk profile of the company is clearly evidenced by the highest credit B+ rating, awarded by the international rating agency Scope, which the company maintained unchanged even in a pandemic;
- The company was able to obtain funding even from two new financial institutions (both local and foreign) in the event of a pandemic, which is the merit and result of the company's solid and stable risk profile;
- In the event of a pandemic the company managed to raise funds from two new financial institutions (both local and foreign), which is the result of company's solid and stable risk profile;
- In line with new legislative requirements AML / CFT policy has been updated, changed software, and improved AML / CFT control mechanisms and process automation;
- ML/TF Organizational Risk Assessment Policy has been approved, which enables the company to make informed decisions about key areas for ML/TF risk management, to find out how sensitive an organization is to ML/TF threats, and to properly analyze identified risk factors and develop an adequate internal control system based on proper analysis of identified risk factors;
- AML/CFT trainings and testing were conducted across the company to raise awareness of employees whose activities, due to the rights and responsibilities assigned to them, are directly related to the compliance with AML / CFT legislation;
- For establishing contactless business relationship with customers, a remote identification procedure was introduced, which was agreed with the National Bank of Georgia. This service allows customers to save time, costs and receive services without going to the service center;
- An action plan for the implementation of the recommendations established as a result of the last on-site inspection was developed and submitted to the National Bank of Georgia. The company successfully implemented recommendations set out in the action plan in deadlines;
- Approved information security policy based on the principles of ISO / IEC 17799 international standard;
- Operational incident management process was introduced and incident detection, collection, recording and classification procedure-methodologies were developed;
- An electronic archive and relevant instructions were developed.

The company's correct risk management approaches are evidence of consistently low and sustainable risk ratios, both to direct competitors and to the market, which is maintained in both a stable macroeconomic environment and in a pandemic shock. Despite the significant variability of the economic environment, the company maintains a rapid growth rate in the context of high quality portfolios. With its risk parameters, MBC is one of the best in the sector.


END VIOLENCE AGAINST WOMEN
UN WOMEN GEORGIA
#orangetheworld
World Bicycle Day
Brian Tracy

# CSR

Responsible business is an ongoing activity that includes company's share of responsibility to its employees, customers, public and the environment in which it operates. Since beginning, the company has aimed to establish a credible and transparent reputation in the micro-finance market. Organizational culture, corporate governance style, equal employment conditions and healthy competition, experienced team and solid financial partners are considered as the main successes. Corporate social responsibility and relevant value frameworks are in absolute harmony with the company's business philosophy. MBCs corporate social responsibility strategy includes the following areas: environmental protection, women's social and economic empowerment, financial education support, labor rights, youth support. MBC is a member of local and international networks that promote corporate social responsibility. These are: Global Compact, CSR Club, Georgian Pro Bono Network, UN Women, MFC, Smart Campaign. It also supports international and local organizations working to support vulnerable groups in the community.

## ENVIRONMENTAL RESPONSIBILITY

Environment protection is an important part of the company's strategy and is one of the top priorities. The goal of the company is to minimize the negative impact on the environment and to ensure waste recycling and cleaning - active involvement in recycling actions. MBC management coordinates and controls environmental policy, systematically oversees, and also promotes the rational use of natural resources in the company. MBC allocates human and financial resources to carry out planned environmental education and awareness-raising activities. The company keeps customers, investors and all interested parties informed about the planned environmental activities and initiatives. It is especially important for the company to plan sustainable environmental activities and involve employees in these activities, discuss and implement their initiatives.

## SUPPORT OF FINANCIAL EDUCATION

Financial education is a strategic direction of MBCs Corporate Social Responsibility, in which important projects are implemented with partners. It is noteworthy that financial education has acquired special importance in combating the challenges of 2020. Despite the pandemic, company continued to implement the project "Financial Advisor", in which we offered free consultations to entrepreneurs, interested citizens and representatives of the sector that was particularly affected by the pandemic. The Financial Advisor team conducted a series of trainings on financial education, marketing and social media for citizens employed in tourism sector. In cooperation with the National Bank of Georgia MBC continues to make the content available to public at https://finedu.gov.ge. FinEdu is the first Georgian educational web portal dedicated entirely to financial education and incorporates educational resources such as publications and blogs, brochures, textbooks and other similar print and supporting materials, video and audio content. This content is disseminated through MBC communication channels, creating interesting and easily perceptible visual material for customers. MBC is a member of Microfinance Center "MFC". MFC brings together 110 organizations in Europe and Central Asia, including 77 microfinance organizations, with the goal of providing access to financial resources for small businesses through responsible lending. MFC membership offers more opportunities in terms of financial education. In 2020, the company joined the international financial-educational campaign "Borrow Wisely", which aims to increase the financial education of customers and thus strengthen the protection of their rights. As part of the campaign, MBC has fully provided customers with access to visual or textual material, created to share international experience, made informational videos, advice posters and recommendation content.

## WOMEN'S EMPOWERMENT

Increased facts and data of violence prove that achieving gender equality and the UN Sustainable Development Goals is impossible without the economic empowerment of women. For the purpose of ensuring sustainable change and creating an environment of economic empowerment of women, an action plan has been developed and successfully implemented in MBC, with UN Women office of Georgia.

The pandemic has increased the dangers that go beyond the risk of infection. Due to the accompanying stresses, cases of domestic violence, as well as gender-based violence, have increased. Helping the victims of violence is especially important for MBC, and projects in this direction were implemented in 2020, in particular:

- Procurement policy was renewed and priority was given to women entrepreneurs who needed special support during the pandemic;
- the company purchased face masks from a female entrepreneur with many children;
- MBC with its staff, helped a female victim of violence as well as a student who was abused by her father.

In 2020 the company also joined and expressed solidarity with the Global Campaign Against Gender-Based Violence, which begins on November 25, International Day for the Elimination of Violence against Women and lasts for 16 days.
As a company dedicated to the principles of women's empowerment, we strive to take some steps to help creating a non-violent environment both inside and outside the organization, raising awareness of the problem, promoting services that exist against violence and supporting women victims of gender-based violence.

## YOUTH SUPPORT

MBC pays special attention to promoting education and supporting young people. It is important for us to strengthen the economy of young people and help them to realize their potential. This strategic direction is in line with the 4th, 5th, 8th and 9th goals of UN Sustainable Development. The mismatch between demanded and supplied skills is one of the main reasons for the high unemployment rate. It is necessary to improve the system of job forecasting and career counseling, in which MBCs HR Unit is actively involved and provides free consultations to young people and social enterprises within the framework of the project "Financial Advisor". MBC constantly provides a series of trainings for interns and interested young people.

## OUR EMPLOYEES

The foundation of company's success is a team of employees who are guided by internationally recognized corporate governance principles and ethics in their day-to-day operations. MBC pays special attention to creating and protecting safe working conditions for employees and provides a supportive and encouraging environment. Taking care of the team's physical and psychological health during the pandemic crisis was a significant challenge. Company’s management did everything possible to ensure that no employee was injured. As a result of joint efforts, we managed to keep 100% of jobs and salaries, as well as taking care of employee safety and continuity of their development. In 2020, under the conditions of pandemic, a large-scale "internal online training series" was implemented, which was planned under the initiative of the Credit Department and covered all employees of the company. The aim of the project was to deal with the crisis situation caused by pandemic, to discover new opportunities and to transform these opportunities into advantages. The trainings, according to the topics, included several topical areas: Credit product processing, sales scripts, effective communication, motivation - a tool for goal setting and achievement, as well as the project "Talk", which aimed to provide employees with up-to-date information about ongoing processes, stress management and team building.


In 2020, under the initiative of management and employees, a corporate social responsibility project "Kindness is contagious" was created. In the process of dealing with the pandemic the activity of employees is especially important, as well as their involvement in the challenges and corporate responsibility projects. This involvement creates the teamwork that is so needed in a challenging period. During the pandemic employees made decision to withdrew their own salaries and collect money for supporting community. The same amount of money was added by the company in the fund. With collected resources the following projects were implemented:

- Ten adolescents were provided with the Internet, for whom the help was important in terms of continuing their education. Prior to that, they did not have access to the Internet. Naturally, the Internet was also used by the family members of these pupıls;
- We helped up to 40 elderly people and provided them with the necessary medication and safety equipment;
- We helped a victim of violence - we paid the rent for the apartment and bought her the basic / necessary items.

MBC is a regular partner of the House of Virtues "Catharsis". During the pandemic, the organization switched to remote mode and provided ready meals, dry products and personal items to 430 beneficiaries. We provided them with enough funding for 4 days.

On New Year's Eve, MBC also launched another charity initiative in supporting of community: selected organizations (shelters for the elderly, organizations working with people with disabilities), to which, based on their needs, donated household appliances and food.

## RESPONSIBILITY IN THE MARKET SPACE

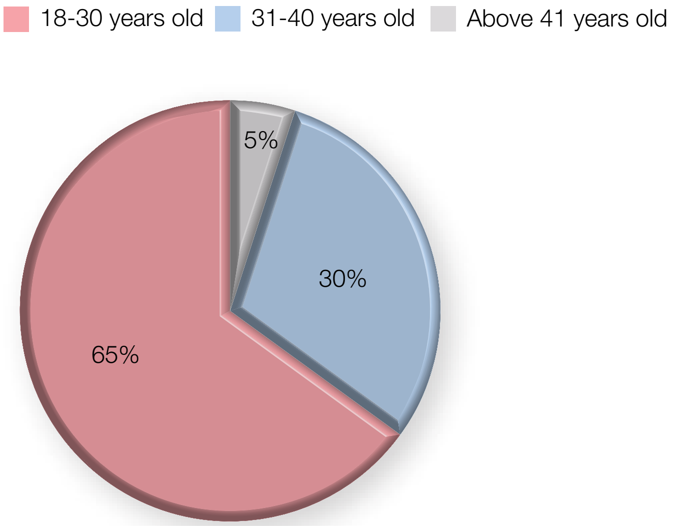
One of the most important directions for the company is the protection of customers' rights, which means transparent, reasonable and decent financial services. MBC customers are always informed about products and services in a timely and complete manner. The attitude of employees towards the clients is based on high standards of professional ethics and moral values. The company has a separate service quality direction, which follows the rules of employee behavior and ensures the most comfortable environment for the client. MBC has introduced a Grievance Redressal System. In order to improve the quality of service and develop cooperation, customers are constantly communicated.

# OUR TEAM

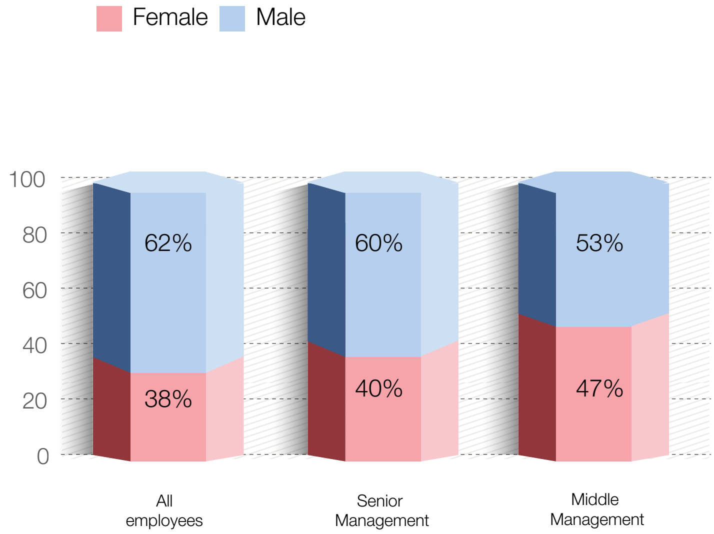
Employees are the most valuable asset of MBC. Therefore, creating a healthy, safe, transparent, encouraging and friendly work environment for them is an important strategic goal for the company. Management takes care of creating an organizational culture where employees will be able to show their potential, develop personal and professional skills. Each employee contributes to the success and sustainable development of the company. MBC ensures equal employment conditions for all employees and job seekers, eliminates discrimination based on race, color, sex, age, religion, origin, marital status or health status.

**Number of Employees: 182**
**Average age of employees: 30 years**

### Age Statistics




### Gender Statistics




## PANDEMIC AND STAFF SUPPORT

From the start of the pandemic, one of the main concerns, of course, was company's employees. Along with maintaining business continuity, taking care of the team's physical and psychological health was an important task.

- The first priority was the safety of employees and providing them with a suitable working environment. Work schedule and place of employees have changed. Employees who belonged to the risk groups and the employees whose job specifics did not require being in the office were switched to the remote work schedule. Front office staff took turns for two weeks. Due to the current situation, the remote working mode was maintained the following year.
- The company provided the branches with full virus protection equipment (face masks, gloves, disinfectants, disposable pens, information stickers, barriers, etc.) in the shortest time. With the staff, we started taking care of safety of customers before the issue was regulated by the law.
- The ways of delivering products and services were changed as much as possible, we switched to remote channels as much as possible.
- In case of restriction of movement, the company provided its employees with transportation.
- Disinfection works were carried out systematically in all offices;
- Provided information and materials necessary to employees on a regular basis;
- Meetings, trainings, educational activities and the recruitment process have been moved to a completely remote mode.

During the pandemic, company actively planned professional trainings, as well as held workshops and meetings that served the motivation and encouragement of employees.
Involvement of employees and their activities with the management of the company has become the driving force of the company's health and success. Employees expressed a desire not only to receive help. As a result of this activity, the project "Kindness is contagious" was created, which aimed to help vulnerable groups and those who were particularly affected by the pandemic.

During the pandemic, a "Solidarity Fund" was set up to support staff and their families, providing material assistance in the event of infection, testing, treatment and other virus-related issues. Also in 2020, the "We, the MBCs" campaign was planned and implemented online, with the aim of holding consultative meetings with each employee, discussing how to deal with challenges together, building teamwork, maximizing employee awareness and ensuring their involvement in decisions.

The projects "Solidarity Fund" and "We, the MBCs" covered almost all employees of the company. Without a sense of unity and support, it will be virtually impossible to continue working effectively. For the company, of course, the main result is all retained employees, their retained jobs, salaries and all other benefits.

In the Meliora 2020 Responsible Business Competition of Georgia, MBC won the nomination "Employee Support during Covid-19 Pandemic".

## EQUAL EMPLOYMENT OPPORTUNITIES, ATTRACTING NEW STAFF (TALENTS)

MBC manages the selection and employment of vacant positions in full compliance with the principles of equality. The company has a healthy, competitive and transparent staff selection environment, which includes candidate search, evaluation and selection. In the process of employment both external and internal candidates are considered for the vacant position. The final evaluation is based on education, work experience, professional knowledge, business qualities and skills. The company has introduced an internship program, which aims to train and develop beginners, identify and improve their career advancement opportunities. MBC offers internships to undergraduates and graduates, and hires them in case of successful completion of the internship program. The company constantly cooperates with various higher-educational institutions and actively participates in employment forums.

## TRAINING, DEVELOPMENT AND ADAPTATION OF EMPLOYEES

The company has an employee adaptation and socialization program, which aims to help new employees in the process of adaptation with colleagues and work environment as quickly as possible, helps to get familiar with corporate culture and rules of the company. The company is constantly on the lookout for employee development and career growth. Qualification training programs are systematically planned and implemented. Despite the pandemic, 2020 proved to be effective in this direction. Both internal and external trainings on professional and social skills development were conducted. It is noteworthy that the experienced employees of the company are actively involved in the process of employee training and development. It is with the help of experienced professionals that the company trains young employees. The company financially supports the training of employees in various external training programs. In 2020, up to 180 employees underwent training and retraining (service plus, sales, processes, products, personal development, management, etc.).

## MOTIVATION AND INVOLVEMENT OF EMPLOYEES

Motivation and encouragement of employees is the top priority of company. This includes both tangible and intangible systems. Tangible systems include: bonuses, annual premiums, health insurance (fully reimbursed by the company), salary increase system, various competitions, trainings, additional awards, corporate events, sports, field trips and other social activities. Intangible systems are mainly employee recognition, such as: letters of appreciation, identification of best employee, public and personal recognition programs, employee involvement programs and etc. Since the establishment of MBC, the company has been raising salaries for its employees at least once a year. From January 1, 2019, with the implementation of the funded pension reform, the company decided to pay the pension contributions that had to be paid by the employee. As a result of company and state contributions, the well-being of MBC employees is increasing, which is one of the main goals of Embassy's social policy.


## APPRAISAL THE WORK DONE

MBC has an annual appraisal of the work done by the employees, which is carried out in compliance with the principles of fairness, objectivity, transparency, impartiality, non-conflict of interest, trust, proportionality of the employee's and company's interests. In 2020, the employee performance appraisal system was improved. Based on the updated system, not only the work performed by the employees in accordance with the set goals is evaluated, but also the employees are evaluated according to the competence required to perform these functions. A new component has been introduced in the appraisal system, which identifies staff development needs, plans and staff development based on these plans.

## REMUNERATION AND BENEFITS

In addition to the basic part of salary, MBC offers incentive schemes to all employees of the service centers and employees of some positions of the head office, which allows them to earn salary supplements. The salary supplement depends on the fulfillment of the set goals and is an opportunity to generate increasing salary. The company offers employees a pleasant working environment, the opportunity to participate in various social events, career growth prospects, professional and personal development opportunities, and paid maternity leave. One of the main goals of MBC is to ensure the physical, mental and social well-being of its employees. To achieve this, the company uses all the resources.

## ONLINE PLATFORM - IDEA HUB

The company has introduced an online platform "Idea Hub", through which employees can write to the HR Unit or directors about any remarks, dissatisfaction and misconduct with complete anonymity. Through the same platform, employees have the opportunity to post new ideas and recommendations. This platform increases employee involvement and creates significant motivation to work together for making company more successful and creating a comfortable and friendly work environment where each of us will be satisfied and happy.

# INNOVATION MANAGEMENT

Promoting the development of innovation and technology, participating in the formation of the necessary ecosystem and stimulating the use of innovation are important directions for MBC. The financial sector in Georgia has always been at the forefront in this direction, and MBC is a leading company in the microfinance sector. The company is constantly striving to create tools to support innovation and technology, to conduct quality and labor market-deficient trainings to develop competitiveness, including incentives and funding mechanisms for staff and beneficiaries of the Financial Advisor project. It is important for MBC to create and introduce innovative products, as well as to initiate products that promote innovation. Such products are - startup loan, credit card, remote products, etc.

## CREDIT CARD

MBC is the first company in the Georgian microfinance market to offer credit card to its customers. The product is intended for lending to small entrepreneurs and farmers. Bcard (Business Card) provides financing for the short-term monetary needs of customers and promotes the continuous and efficient operation of micro businesses. The credit card is local and comes with all the features of a traditional bank card. The card can be used throughout Georgia through ATMs of partner banks, as well as POS terminals.


## ONLINE PLATFORM

MBC customers have access to online banking services similar to Internet Banking, which is an innovation for the microfinance market. At any time and any place, the client can remotely (online) receive comprehensive information about the loan(s).


## SMS SERVICE

In 2020, another remote product was introduced - SMS service (similar to the service of "SMS Bank" banking product), which allows customers to quickly and easily, via short text message, get the necessary information about the company's services and transactions without having to visit the service center.

## REMOTE PRODUCTS

In 2020, the company started developing the product "Remote Auto Loan" and was one of the first in the Georgian microfinance market to offer a new product. Those interested in the product have the opportunity to go through the identification procedure remotely and approve an auto loan from 2000 to 7500 GEL within a maximum of 30 minutes, without leaving home. Along with Remote Auto Loan, another innovative product has been created - "Online Currency Conversion", which includes a virtual personal space and allows customers to remotely fix the task of cashless conversion and perform the operation without leaving

home. "Online Currency Conversion" offers a favorable exchange rate for existing and potential customers. The service is available to both individuals and legal entities. In terms of innovation management, we distinguish marketing activities that fully meet modern standards, which on the one hand, means constant and, most importantly, two-way communication with the customer, and on the other hand, the introduction of products or technologies that greatly facilitate public access to finance. Marketing Group uses all types of digital channels to communicate with its customers. In 2020, the company, in line with international practice, introduced individual Landing Pages for all products, which allows customers to get comprehensive information about the service they are interested, and then, by filling out a simple application form, request funding. This change has almost 3-4 times increased the percentage of application completion among site visitors. Also, we should single out the small entrepreneurs supporting marketing campaigns financed by MBC, which is part of the company's unified marketing strategy and considers the review of their activities, the development and implementation of a communication plan. MBC actively uses various marketing channels to present and promote the products / services of small entrepreneurs and farmers to the public.

## FINANCIAL EDUCATION

In 2020, despite the pandemic, we continued to work on the project - "Financial Advisor", through which our customers and interested parties participated in financial education consulting and training for free. More financial education means more correct decisions. The project proved to be useful for female entrepreneurs as they were most in need of tips to maintain business continuity and adapt to the crisis. Innovation management is one of the main challenges of modern management and MBC successfully overcomes this challenge, which was reflected in the results of 2020. For achieving its goals and objectives MBC has identified the development and management of innovations as one of the priority directions.

# INFORMATION TECHNOLOGIES

The development of information technologies occupied an important place in the business strategy during 2020. The company has strengthened its IT team amid a pandemic. A technical support staff, system administrator and business analyst have been added to our team. The company continues to strengthen the team this year. In addition, MBC works with other outsourced companies involved in software development. One of the such projects is the Human Resources Management System (HRMS), on which we started working in 2020. The project has gone through phases of analysis, development and is now in the test mode phase. This system greatly simplifies personnel management operations, which significantly increases the efficiency of administration and saves both financial and human resources.

At the same time, the company has provided changes / improvements to the server infrastructure. Significant changes have been made to the network infrastructure to ensure a sustainable and secure work environment in the organization. Corporate email protection and antivirus software have been introduced.

In parallel with the Covid-19 regulations introduced in the country in 2020, the company was able to transfer employees on remote mode in the shortest time. The network infrastructure was ready for this, which was protected as much as possible in order to be provided company's services on a continuous basis.

MBC has introduced the Remote Online Identification module with its partners. Those who are interested in the product have the opportunity to remotely go through the identification procedure and approve an auto loan in the shortest possible time, without leaving home. This product has reduced the frequency of calls in service centers and made it easier for customers to access the product.

IT team was able to effectively implement the necessary legislative or pandemic-induced technical changes in key programs.

In 2020, the company began arranging backup server infrastructure (DR). The project will be completed this year.

MBC’s future plans include the launching of a new internet banking, which will further facilitate customers to communicate with us. Also, the company plans to introduce an ISO information security standard that is in line with best practices in the information security management system.

# CORPORATE GOVERNANCE

Corporate management of MBC, as Joint Stock Company, complies with international standards, principles and best practices.
MFO has a well-defined organizational structure that ensures accountability, proper delegation of accountability and authority, stable administration, effective risk identification, management and reporting, adequate internal control, financial planning and reporting, relevant policy-procedures. For the stable functioning of the MBC, there is a strict separation of powers between the supervisory, executive and controlling bodies, whose functions fully ensure the management of the MFO and are not duplicated.

The governing bodies of MFO are: General Meeting of Shareholders, Supervisory Board, Directorate.
The General Meeting of Shareholders is the highest governing body of MFO. The rights of shareholders are defined by the charter of MISO and are regulated by the legislation of Georgia.
MBC's activities are overseen by a Supervisory Board elected by the General Meeting of Shareholders. The board makes decisions on strategic directions for the development of MFO, directs the activities of the executive bodies and is accountable to the general meeting of shareholders.
The Supervisory Board consists of 5 members, one of whom is an independent member and chairs the Audit Committee. The main functions of the Supervisory Board are to protect the rights of shareholders and their capital, to define the strategy of MFO, to approve the organizational structure, to supervise the executive bodies and to continuously assess their role in establishing and maintaining a healthy corporate environment; to ensure adequate conditions for effective internal control and risk management; monitoring of Remuneration System, approving the Long-Term Strategic Development Plan, risk-appetite, budget approval and execution control.
In Supervisory Board there is an Audit Committee whose main function is to encourage the functioning of internal audit and external auditors. The purpose of the Audit Committee is conducting the internal audit and financial reporting process, monitoring the internal control system, and ensuring compliance with the organization's work with legislation and regulations, which allows supervisory board to receive reliable information on the basis of which it will be able to make effective governance decisions.
The powers, functions and responsibilities of Audit Committee are defined by the legislation of Georgia and the Statute on the Audit Committee, which is approved by the Supervisory Board.
The day-to-day management of MFO is carried out by a directorate that ensures the achievement of strategic goals. Directorate is collectively accountable to the Supervisory Board.
The members of the Directorate are appointed by the supervisory board. Directorate, among other functions, implements business strategies, creates effective financial and non-financial risk management systems, facilitates the development and establishment of a risk culture, processes and controls, provides the Supervisory Board with the information needed to perform its functions. The Directorate is responsible for the division of functions and responsibilities of the staff and the establishment of an effective governance structure that ensures accountability and transparency within the company.

Directorate consists of 5 members – Chief Executive Officer, Chief Credit Officer, Chief Operating Officer, Chief Financial Officer and Chief Risk Officer.
The rules, terms and regulations of the activities of the directorate shall be established by the legislation of Georgia, the charter of MFO and the statute of the directorate.
In the company there operates an Internal Audit, which is accountable only to the supervisory board. The head and members of Internal Audit are appointed by Supervisory Board.
The main task of Internal Audit is to assist the Supervisory Board in overseeing the effectiveness of company risk management, quality control, and oversight of financial and economic activities.
The Head of Internal Audit ensures the preparation / implementation of the annual plan and audit programs, as well as the organization and management of audit activities, and the preparation of periodic reports to the Supervisory Board.
Internal Audit verifies the accuracy and reliability of the company's management mechanisms, accounting and financial reporting, operating systems, risk management and internal control mechanisms, their compliance with legislation and international standards.
The rules, terms and regulations for the appointment of members of the Internal Audit shall be established by the legislation of Georgia, the Charter and the Statute on Internal Audit.
At the end of the year, the Supervisory Board convenes an independent external auditor to assess the reliability of MFO's financial operations and annual reporting.
MBC recognizes the importance of staffing governing bodies with people of different genders, nationalities, and work experience, employment, and appointments to appropriate positions based on work experience, education, professional knowledge, and required skills.
The Supervisory Board has one woman out of five members, while the Directorate consists of three women out of five members.

## SUPERVISORY BOARD

**Taras Nizharadze**
Chairman of Supervisory Board

Since 2012, Taras Nizharadze is a partner of JSC Microfinance Organization "Micro Business Capital" and Chairman of Supervisory Board.

He has been active in business since 1990 –He is the founder and manager of private companies in the fields of banking, tourism, agriculture, natural resources and energy.

From 1998 to 2012, Taras Nizharadze was one of the shareholders of JSC "Basisbank", a member of the Supervisory Board and chairman later.

Since 2006 he is a co-founder and director of Ltd. "Energo-Aragvi". He is leading one of the most successful projects in the field of hydropower in Georgia.

In 1986, Taras Nizharadze graduated from the Faculty of Physics of Moscow State University and received a bachelor's and master's degreez in semiconductor physics. He started his scientific career as a researcher at the Republican Center for Structural Studies based on the Georgian Polytechnic Institute.

**Gia Petriashvili**
Member of Supervisory Board,
Chief Executive Officer

Gia Petriashvili, after many years of experience in banking sector, founded JSC Microfinance Organization "Micro Business Capital" (MBC) in 2012 and since its establishment, has held the position of Chief Executive Officer, and since 2017 is a member of the Supervisory Board of the same organization.

From 1993 Gia Petriashvili was the founder and the first chairman of the Supervisory Board of JSC "Basisbank", and in 1998-2012 he was a member of the Supervisory Board of the same bank.

From 1999 he worked in the OPIC-funded investment fund "Caucasus Fund", and in 1999-2002 he was the director of the Tbilisi office of LLC Caucasus Advisors.

In 2002-2005 Gia Petriashvili was the founder and managing director of "Entertainment Center Maidan" Ltd. In 2006-2009 he founded and managed a real estate investment company - "Solo-Laki Investor" Ltd.

Gia Petriashvili holds a Master's and Doctorate degree in Theoretical and Mathematical Physics of Moscow State University. He started his scientific career as a researcher at the Institute of High Energy Physics of Tbilisi State University. He was also a visiting researcher at Moscow Institute for Nuclear Research.

**Murman Ambroladze**
Member of Supervisory Board

Murman Ambroladze has been a partner and member of the Supervisory Board of JSC Microfinance Organization "Micro Business Capital" since 2014.

In 1993, together with Gia Petriashvili, he founded a commercial bank - JSC "Basisbank" and was its director for many years. In 2008-2012 he was a member of the Supervisory Board of JSC "Basisbank".

From 2012 to present, he is the founder and director of "Ambro-Soft" Ltd.

Murman Ambroladze holds a Master's and Doctorate degree in Mathematics of Moscow State University and is the author of a number of scientific papers. He started his scientific and pedagogical career at the Department of Higher Mathematics of Tbilisi State Technical University.

**Natalia Rukhadze**
Member of Supervisory Board

Since 2017, Natalia Rukhadze has been a member of the Supervisory Board of JSC Microfinance Organization "Micro Business Capital".

Natalia Rukhadze graduated from the St. Petersburg Academy of Chemistry and Pharmacy and received a master's degree in biotechnology. Natalia started her career in Russia, majoring in industrial biotechnology, and continued her research work in Boston (USA) with Biogen Ltd.

In 2000, she got a master's degree from the Massachusetts Institute of Technology School of Management. after that she worked in Sloan Biotechnology - with Accenture and Millennium Pharmaceuticals – in the fields of project management, new product development and marketing.

In 2006, Natalia Rukhadze came to Georgia with her family and started an entrepreneurial activity. In 2008, she founded the Family Property Management Company in London and managed the multimillion-dollar assets of successful enterprises for 6 years.

Since 2014, Natalia Rukhadze has been running a private family business internationally.

**Valeri Chechelashvili**
Independent member of Supervisory Board

Valeri Chechelashvili graduated from the Faculty of International Relations and International Law of Kiev State University majoring in International Economic Relations and holds a PhD in International Economics.

Since 1989, he has worked in the field of diplomatic relations and held various positions in the Ministry of Foreign Affairs of Georgia - from the Second Secretary to the position of Deputy Minister. In 2005, Valeri Chechelashvili was the Minister of Finance of Georgia, and in 2005-2007 he held the position of First Deputy Minister. In 1994-1998 he was the Ambassador Extraordinary and Plenipotentiary of Georgia in Ukraine, and in 2004-2005 in Russian Federation. In 2000-2004, Chechelashvili held the position of Secretary-General of the Black Sea Economic Cooperation Organization, and in 2007-2016 - the position of Secretary-General of the Organization for Democracy and Economic Development.

In 2000-2004, as Secretary General of the Black Sea Economic Cooperation Organization, he served on the Board of Directors of the Black Sea Trade and Development Bank (its affiliated body under the Charter of the Black Sea Economic Cooperation Organization). In 2002-2012 he was a shareholder of Basisbank.

Since 2016, Valeri Chechelashvili has been a Senior Researcher at the Georgian Foundation for Strategic and International Studies.

He has been awarded various medals and orders and is also the author of several dozen publications in the field of regional economic cooperation and international relations.

## DIRECTORATE

**Gia Petriashvili**
Member of Supervisory Board,
Chief Executive Officer

Gia Petriashvili, after many years of experience in banking sector, founded JSC Microfinance Organization "Micro Business Capital" (MBC) in 2012 and since its establishment, has held the position of Chief Executive Officer, and since 2017 is a member of the Supervisory Board of the same organization.

From 1993 Gia Petriashvili was the founder and the first chairman of the Supervisory Board of JSC "Basisbank", and in 1998-2012 he was a member of the Supervisory Board of the same bank.

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In 2002-2005 Gia Petriashvili was the founder and managing director of "Entertainment Center Maidan" Ltd. In 2006-2009 he founded and managed a real estate investment company - "Solo-Laki Investor" Ltd.

Gia Petriashvili holds a Master's and Doctorate degree in Theoretical and Mathematical Physics of Moscow State University. He started his scientific career as a researcher at the Institute of High Energy Physics of Tbilisi State University. He was also a visiting researcher at Moscow Institute for Nuclear Research.

**Giorgi Ghvaladze**
Chief Credit Officer

Giorgi Ghvaladze has been heading the credit department of JSC Microfinance Organization "Micro Business Capital" since 2013. He has many years of experience working in the field of banking and finance. In 2005 he started his career at Bank Constanta - as a lending expert, later as a branch manager, and head of mini and mini-agro departments.

Giorgi Ghvaladze graduated from Tbilisi State University and has a bachelor's degree in economics. In 2006 he was awarded a Master of Business Administration (MBA) from the Caucasus Academic Center (CAC), and since 2014 he has been a PhD student in Business Administration at the Faculty of Engineering of Georgian Technical University.

**Eter Chachibaia**
Chief Operating Officer

Since 2013, Eter Chachibaia is a member of the team of JSC Microfinance Organization "Micro Business Capital". Her area of responsibility as Chief Operating Officer includes: Operations Products and Services, Call Center, Marketing, PR and CSR, Logistics and Procurement. For many years Eter Chachibaia was employed by JSC "Basisbank" and "HSBC-Bank Georgia" - in the field of operational, retail and corporate services.

In addition, at various times she has been active in international organizations and the non-governmental sector.

Eter Chachibaia has a master's degree in international economics.

**Tatia Jajanashvili**
Chief Financial Officer

Tatia Jajanashvili joined MBC team in 2014 and heads the units of Treasury, Accounting, Financial Reporting and Information Technology.

In 2011-2014, she held the position of Senior Officer of Management Accounting and Analysis, ın Bank Constanta.

Tatia Jajanashvili is a graduate of Caucasus University and holds a bachelor's degree in finance. In 2020, she was awarded a Master degree in Management Consulting of Grenoble Business School.

Tatia Jajanashvili was chosen on Forbes 30 Under 30 in the Finance category in 2019.

**Nino Devdariani**
Chief Risk Officer

Nino Devdariani has been the Chief Risk Officer of MBC since 2016 and heads the Credit and Operational Risks as well as the AML and Legal Units.

In 2008-2013 she worked at the National Bank of Georgia in the field of risk management and control of international reserves, and in 2014-2016 she worked at the Ministry of Finance of Georgia in the field of public debt risk management.

Nino Devdarian holds a Master's degree from Williams College (USA) (2014) and is a World Bank Fellow.

**Gia Petriashvili**
Chief Executive Officer

02 August 2021

BDO

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Vere Business Center
0179 Tbilisi
Georgia

## TO THE SHAREHOLDERS AND MANAGEMENT OF JSC MFO MICRO BUSINESS CAPITAL

## OPINION

We have audited the financial statements of JSC MFO Micro Business Capital (the "Organisation"), which comprise the statement of financial position as at 31 December 2020, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organisation 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 (IFRS).

## 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organisation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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 Organisation'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 Organisation or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Organisation's financial reporting process.

Ivane Zhuzhunashvili (Registration # SARAS-A-720718)
or and on behalf of BDO LLC
Tbilisi, Georgia
21 June 2021

# FINANCIAL REPORT 2020

Together with Independent Auditors' Report For the year ended 31 December 2020

# INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS AND MANAGEMENT OF JSC MFO MICRO BUSINESS CAPITAL

## OPINION

We have audited the financial statements of JSC MFO Micro Business Capital (the "Organisation"), which comprise the statement of financial position as at 31 December 2020, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organisation 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 (IFRS).

## 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organisation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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 Organisation'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 Organisation or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Organisation'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 auditors' 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 scepticism 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 Organisation'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 Organisation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Organisation 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. The engagement partner responsible for the audit resulting in this independent auditor's report is:

Ivane Zhuzhunashvili (Registration # SARAS-A-720718)
or and on behalf of BDO LLC
Tbilisi, Georgia
21 June 2021

As at 31 December 2020 (In thousands of Georgian Lari)

| | Note | 31 December 2020 | 31 December 2019 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 6 | 2,673 | 3,046 |
| Loans to customers | 7 | 66,858 | 58,219 |
| Other assets | 8 | 237 | 262 |
| Deferred tax asset | 9 | 2,404 | 2,262 |
| Right-of-use assets | 10 | 1,624 | 1,391 |
| Intangible assets | | 4,050 | 4,483 |
| Property and equipment | 11 | 356 | 194 |
| **Total assets** | | **78,202** | **69,857** |
| | | | |
| **Liabilities** | | | |
| Subordinated borrowings and other borrowed funds | 12 | 54,928 | 48,084 |
| Lease liabilities | 10 | 4,947 | 4,700 |
| Other liabilities | 13 | 765 | 374 |
| **Total liabilities** | | **60,640** | **53,158** |
| | | | |
| **Equity** | | | |
| Share capital | 14 | 2,225 | 2,200 |
| Share premium | 14 | 996 | 900 |
| Preference shares | 14 | 7,347 | 7,347 |
| Retained earnings | | 6,994 | 6,252 |
| **Total equity** | | **17,562** | **16,699** |
| **Total liabilities and equity** | | **78,202** | **69,857** |

The financial statements for the year ended 31 December 2020 were approved on behalf of the management on 21 June 2021 by:

General Director: **Gia Petriashvili**

Financial Director: **Tatia Jajanashvili**

For the year ended 31 December 2020 (In thousands of Georgian Lari)

| | Note | 2020 | 2019 |
|---|---|---|---|
| Interest income | 15 | 15,858 | 14,080 |
| Interest expense | 15 | (6,290) | (4,971) |
| **Net interest income** | | **9,568** | **9,109** |
| Fee and commission income | | 1,647 | 1,658 |
| Net foreign exchange loss | | (3,776) | (853) |
| Net gain from trading in foreign currency | | 1,955 | 480 |
| **Operating income** | | **9,394** | **10,394** |
| Impairment losses on debt financial assets | 7 | (748) | (554) |
| Personnel expenses | | (4,238) | (4,187) |
| Depreciation and amortisation | | (1,275) | (900) |
| Other operating expenses | 16 | (1,498) | (1,705) |
| **Profit before income tax** | | **1,635** | **3,048** |
| Income tax expense | 9 | (152) | (528) |
| **Total comprehensive income** | | **1,483** | **2,520** |

For the year ended 31 December 2020 (In thousands of Georgian Lari)

| | Share capital | Share premium | Preference shares | Retained earnings | Total |
|---|---|---|---|---|---|
| **At 31 December 2018** | 2,185 | 852 | 7,347 | 4,285 | 14,669 |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Issue of ordinary shares | 15 | 48 | - | - | 63 |
| | 15 | 48 | - | - | 63 |
| **Total comprehensive income for the year** | | | | | |
| Dividends | | | | (553) | (553) |
| Profit for the year | - | - | - | 2,520 | 2,520 |
| | - | - | - | 1,967 | 1,967 |
| **At 31 December 2019** | 2,200 | 900 | 7,347 | 6,252 | 16,699 |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Issue of ordinary shares | 25 | 96 | - | - | 121 |
| | 25 | 96 | - | - | 121 |
| **Total comprehensive income for the year** | | | | | |
| Dividends | - | - | - | (741) | (741) |
| Profit for the year | - | - | - | 1,483 | 1,483 |
| | - | - | - | 742 | 742 |
| **At 31 December 2020** | 2,225 | 996 | 7,347 | 6,994 | 17,562 |

For the year ended 31 December 2020 (In thousands of Georgian Lari)

| | 2020 | 2019 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| **Profit before income tax** | **1,635** | **3,048** |
| **Adjustments for:** | | |
| Impairment losses on debt financial assets | 748 | 554 |
| Net change in interest accruals | (23) | (555) |
| Rent concessions | (100) | - |
| Modification loss of contractual cash flows of financial assets | 790 | - |
| Depreciation and amortization | 1,275 | 900 |
| Bonus, audit and other fee accruals | 74 | 294 |
| Net gain from sale of repossessed property | (8) | (69) |
| Net foreign exchange loss | 3,776 | 853 |
| Written-off of property and equipment | 5 | 13 |
| **Cash flows from operating activities before changes in operating assets and liabilities** | **8,172** | **5,038** |
| **Changes in operating assets and liabilities:** | | |
| Loans to customers | (9,302) | (9,151) |
| Other assets | (188) | (432) |
| Other liabilities | 311 | (358) |
| **Net cash used in operating activities before income tax** | **(1,007)** | **(4,903)** |
| Income tax paid | (370) | (543) |
| **Cash flows used in operating activities** | **(1,377)** | **(5,446)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (498) | (591) |
| Purchases of intangible assets | (69) | (99) |
| **Cash flows used in investing activities** | **(567)** | **(690)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Receipts of other borrowed funds | 94,288 | 63,464 |
| Receipts of subordinated borrowings | - | 844 |
| Repayment of other borrowed funds | (91,803) | (56,016) |
| Proceeds from issuance of ordinary shares | 121 | 63 |
| Lease liabilities paid | (656) | (543) |
| Dividends paid | (741) | (553) |
| **Cash flows from financing activities** | **1,209** | **7,259** |
| **Net increase/(decrease) in cash and cash equivalents** | **(735)** | **1,123** |
| **Cash and cash equivalents as at the beginning of the year** | **3,046** | **1,771** |
| Effect of changes in exchange rates on cash and cash Equivalents | 362 | 152 |
| **Cash and cash equivalents as at the end of the year** | **2,673** | **3,046** |

# 1. GENERAL INFORMATION

## ORGANISATION

MFO Micro Business Capital (the "Organisation) was established in Georgia as Joint Stock Company on 6 December 2012. Its principal activities are credit operations, cash operations, and foreign exchange transactions. The Organisation's activities are regulated by the National Bank of Georgia (the NBG). The Organisation's registration number is 404967078.

The Organisation aims to provide customer-tailored and accessible financial services to micro and small businesses and farmers, increase availability of funds and loan products, maintain long-term and transparent relations with customers. The Organisation, as a socially responsible financial institution, aims to contribute to the sustainable economic growth of Georgia.

The Organisation's highest management body is the General Shareholders' Meeting. Organisation's activities are supervised by Supervisory Board, whose members are elected by General Shareholders' Meeting. Organisation's daily activities are carried out by Organisation's Board of Directors, who are elected by the Supervisory Board.

The Organisation is wholly owned by members of the Shareholder Group. There is no ultimate controlling party of the Organisation as at 31 December 2020 and 2019. Detailed information is disclosed in Note 14.

The Organisation has 14 branches.
The Organisation's head office is located at 68 Queen Ketevan Avenue, Tbilisi, Georgia.

# 2. BASIS OF PREPARATION

## STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards as issued by the International Accounting Standards Board (IASB) and Interpretations (collectively IFRSs).

The Organisation maintains its records and prepares financial statements in Georgian Lari (GEL), which is also the Organisation's presentation currency. Amounts in the financial statements are rounded in thousands, unless otherwise stated. The reporting period for the Organisation is the calendar year from January 1 to December 31.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying The Organisation's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 3. The principal accounting policies adopted in the preparation of the financial statements are set in the Note 20.

## BASIS OF MEASUREMENT

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss are stated at fair value.

## GOING CONCERN

In determining the appropriateness of the basis of preparation, the management of the Organisation has considered the impact of the COVID-19 pandemic on the position of the Organisation at 31 December 2020 and its operations in the future.

As of 31 December 2020, total assets exceeded total liabilities by GEL17,562 thousand. During the year 2020 and 2019 the Organisation had net income of GEL1,483 thousand and GEL2,520 thousand, respectively.

Considering the COVID-19 impact, the Organisation offered up to three months grace period to customers, which also had an impact on the Organisation's operations. Additionally, At the end of 2020 due to deterioration of COVID- 19 situation in Georgia, the Government introduced a number of regulations including the targeted lockdown, which had impact on the tourism, transportation and HORECA sector, which is not a significant portion of the Organisation's portfolio.

# 2. BASIS OF PREPARATION (CONTINUED)

Despite the COVID-19 impact, the Organisation increased loan portfolio by GEL8,639 thousand during 2020. Also, the Organisation managed to receive additional funding from investors and reduced the risk of liquidity during the COVID-19 outbreak. The Organisation was in compliance with all covenants as at 31 December 2020.

Restrictions related to the COVID-19 have different impact on different business sectors. The management believes that Pandemic has not had impact on the Organisation's going concern despite its effect on operations, cash flows and financial position of the Organisation. These financial statements have been prepared on the assumption that the Organisation is a going concern and will continue its operations for the foreseeable future. The management and shareholder have the intention to further develop the business of the Organisation in Georgia. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Organisation's ability to continue as a going concern. The management believes that the going concern assumption is appropriate for the Organisation.

## ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

### a) New standards, interpretations and amendments effective from 1 January 2020

There have been adopted some new standards and interpretations neither of which have material effect in the Organisation's financial statements for the year ended 31 December 2020:
- Definition of a Business (Amendments to IFRS 3);
- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39 and IFRS 7);
- COVID-19-Related Rent Concessions (Amendments to IFRS 16);
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative - Definition of Material);
- Revisions to the Conceptual Framework for Financial Reporting.

### b) New standards interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations, which have been issued by the IASB, that are effective in future accounting periods that the Organisation has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2022:
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41);
- References to Conceptual Framework (Amendments to IFRS 3).

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

The Organisation is currently assessing the impact of these new accounting standards and amendments. The Organisation does not believe that the amendments to IAS 1 will have a significant impact on the classification of its liabilities.

# 2. BASIS OF PREPARATION (CONTINUED)

### Other

The Organisation does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the financial statements.

# 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Organisation makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

## MEASUREMENT OF EXPECTED CREDIT LOSSES

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

- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- Establishing forward-looking scenarios: When measuring ECL the Organisation uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

### Impact of COVID-19 on ECL

The impact of COVID-19 resulted in the application of further judgement within number of judgements, assumptions and estimates that affect the allowance for ECL due to the limited recent experience of the economic and financial impacts of such an event. Given the unprecedented nature of the COVID-19 pandemic and the uncertainties associated with it, the Organisation reconsidered the existing accounting judgements and estimates and applied management overlays to the methodology.

The economic environment remains uncertain and future impairment charges may be subject to further volatility depending on the longevity of the COVID-19 pandemic and related containment and other measures.

In response to COVID-19 outbreak the Organisation came out with an initiative to grant one to three-month grace period to its borrowers in April, May and June 2020 to significantly reduce the requirement for customers to physically visit branches. Such event was not automatically considered as SICR event (i.e. trigger to transfer the exposure from Stage 1 to Stage 2) and the exposure was only transferred to Stage 2 where there was an observable evidence of financial difficulties of the borrower indicating that the level of risk has increased significantly since loan origination.

# 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

## LEASE TERM, INCREMENTAL BORROWING RATE (IBR) AND LEASE PAYMENTS

The lease term is defined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (including the renewal option implied through customary business practices) 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. Management applies judgement to determine the lease term when lease contracts include renewal options that are exercisable only by the Organisation. It considers all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Organisation reassesses the lease term if there is a significant event or a change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew, or to terminate the lease.

The management applies judgement to estimate the IBR. The management uses an observable information to determine the base rate and adjustments for the lessee specific factors and the asset factors (the adjustment for security).

In Georgia it is customary that lease renewal option is implied through customary business practices and not all renewal options are documented within the lease agreements. In such cases, the initial measurement of the lease liability assumes the payments for renewal periods equal to the contractual amount and will remain unchanged throughout the lease term.

## ASSESSMENT OF COLLATERAL VALUES

The management regularly reviews the market value of the collateral. Management uses best knowledge to updates the appraised values of collateral obtained at inception of the loan to the current values, taking into account the approximate changes in property values. The amount of collateral depends on the customer's credit risk.

## TAXATION

The Organisation believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax results of these matters differ from the amounts in the existing accounting records, such differences will affect the tax expense in the period when such decision was made. The Organisation believes that it can justify its tax declarations and minimizes the risks related to this fact.

# 4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

As a financial institution, the Organisation is exposed to risks that arise from its use of financial instruments. This note describes the Organisation's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Financial assets and financial liabilities that are liquid or have a short-term maturity it is assumed that the carrying amounts approximate to their fair value.

## GENERAL OBJECTIVES, POLICIES AND PROCESSES

The management has overall responsibility for the determination of the Organisation's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the organisations finance function. The overall objective of the management is to set polices that seek to reduce risks as far as possible without unduly affecting the Organisation's competitiveness and flexibility. Further details regarding these policies are set out below. Through its operations, the Organisation is exposed to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk:

- Currency risk
- Interest rate risk

## CREDIT RISK

Credit risk is the risk of financial loss to the Organisation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Organisation has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications
- methodology for the credit assessment of borrowers
- methodology for the credit assessment of counterparties
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

For the year ended 31 December 2020 (In thousands of Georgian Lari)

# 4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

Loan credit applications are originated by the relevant credit officers and are then passed on to the credit committee members, according to credit policy. Credit Committee is responsible for the loan approval/rejection decision. Committee acts in line with the defined limits and standards, which are defined in credit policy and product specification. Analysis is based on a structured analysis, focusing on the customer's business and financial performance.

Credit officer is responsible for the accuracy, reliability and transparency of loan application, which includes information on client, detailed analysis of client's business and preliminary assessment of credit risks and etc. Based on certain criteria (clients' credit history, creditworthiness, financial position, business sustainability and etc) credit committee members review loan application.

The Organisation continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Organisation. Regular monitoring of loans allows the Organisation to mitigate credit risks. Collateral is another tool for credit risk mitigation.

Risk Management Department performs clients individual risk assessment as well as analysis of overall portfolio quality, credit concentration and market risks. Please see allowance for loans customers in Note 7.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of the possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | 1,275 | 1,079 |
| Loans to customers | 66,858 | 58,219 |
| Other assets | 96 | 337 |
| | **68,229** | **59,635** |

## LIQUIDITY RISK

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

The Organisation maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

For the year ended 31 December 2020 (In thousands of Georgian Lari)

## 4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

The liquidity management policy requires:

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

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

The maturity analysis for financial assets and liabilities as at 31 December 2020 is as follows:

| **Financial assets** | **Up to 3 months** | **3 months to 1 year** | **1 to 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|
| Cash and cash equivalents | 2,673 | - | - | - | **2,673** |
| Loans to customers | 9,138 | 28,937 | 58,300 | 478 | **96,853** |
| Other assets | 30 | 66 | - | - | **96** |
| | **11,841** | **29,003** | **58,300** | **478** | **99,622** |
| **Financial liabilities** | | | | | |
| Other borrowed funds | 6,758 | 21,383 | 25,534 | - | **53,675** |
| Subordinated borrowings | 272 | 411 | 7,360 | - | **8,043** |
| Lease liabilities | 291 | 911 | 3,632 | 1,395 | **6,229** |
| Other liabilities | 204 | 80 | - | - | **284** |
| | **7,525** | **22,785** | **36,526** | **1,395** | **68,231** |
| **Net liquidity gap on recognised financial assets and liabilities** | **4,316** | **6,218** | **21,774** | **(917)** | **31,391** |

The maturity analysis for financial assets and liabilities as at 31 December 2019 is as follows:

| **Financial assets** | **Up to 3 months** | **3 months to 1 year** | **1 to 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|
| Cash and cash equivalents | 3,046 | - | - | - | **3,046** |
| Loans to customers | 7,745 | 21,936 | 54,214 | 301 | **84,196** |
| Other assets | 65 | 272 | - | - | **337** |
| | **10,856** | **22,208** | **54,214** | **301** | **87,579** |
| **Financial liabilities** | | | | | |
| Other borrowed funds | 4,508 | 17,207 | 26,689 | 417 | **48,821** |
| Subordinated borrowings | 252 | 390 | 6,222 | 860 | **7,724** |
| Lease liabilities | 260 | 766 | 3,390 | 1,673 | **6,089** |
| Other liabilities | 116 | 203 | - | - | **319** |
| | **5,136** | **18,566** | **36,301** | **2,950** | **62,953** |
| **Net liquidity gap on recognised financial assets and liabilities** | **5,720** | **3,642** | **17,913** | **(2,649)** | **24,626** |

For the year ended 31 December 2020 (In thousands of Georgian Lari)

# 4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

MARKET RISK
Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market factors. Market risk arises from the Organisation's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates (currency risk) and interest rates (interest rate risk).

## CURRENCY RISK

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Organisation is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.
The Organisation's exposure to foreign currency exchange rate risk as at 31 December 2020 is presented in the tables below:

| | GEL | USD | Other Currencies |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 866 | 1,029 | 778 |
| Loans to customers | 62,334 | 4,524 | - |
| Other assets | 30 | 66 | - |
| | **63,230** | **5,619** | **778** |
| **Financial liabilities** | | | |
| Other borrowed funds | 25,720 | 23,321 | 86 |
| Subordinated borrowings | - | 5,801 | - |
| Lease liabilities | 305 | 4,642 | - |
| Other liabilities | 228 | 56 | - |
| | **26,253** | **33,820** | **86** |
| **Open balance sheet position** | **36,977** | **(28,201)** | **692** |
| **The effect of derivatives held for risk management** | (33,224) | 33,127 | - |
| **Net open balance sheet position** | **3,753** | **4,926** | **692** |

The Organisation's exposure to foreign currency exchange rate risk as at 31 December 2019 is presented in the tables below:

| | GEL | USD | Other Currencies |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 845 | 1,710 | 491 |
| Loans to customers | 52,749 | 5,470 | - |
| Other assets | 52 | 285 | - |
| | **53,646** | **7,465** | **491** |
| **Financial liabilities** | | | |
| Other borrowed funds | 21,706 | 21,203 | 95 |
| Subordinated borrowings | - | 5,080 | - |
| Lease liabilities | 267 | 4,433 | - |
| Other liabilities | 319 | - | - |
| | **22,292** | **30,716** | **95** |
| **Open balance sheet position** | **31,354** | **(23,251)** | **396** |
| **The effect of derivatives held for risk management** | (28,347) | 28,323 | - |
| **Net open balance sheet position** | **3,007** | **5,072** | **396** |

For the year ended 31 December 2020 (In thousands of Georgian Lari)

# 4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

The following table details the Organisation's sensitivity to a 20% increase and decrease in the foreign currency exchange rates against GEL and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the year for a 20% change in foreign currency rates. Impact on the statement of comprehensive income and equity based on financial instrument values as at 31 December 2020 and 2019 can be presented as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | (GEL / USD) | (GEL / Other Currencies) | (GEL / USD) | (GEL / Other Currencies) |
| 20% increase | 985 | 138 | 1,014 | 79 |
| 20% decrease | (985) | (138) | (1,014) | (79) |

The analysis assumes that all other variables, in particular interest rates, remain constant.

## INTEREST RATE RISK

Interest rate risk arises from potential changes in market interest rates that can adversely affect the fair values of the financial assets and liabilities of the Organisation. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

The table presents the aggregated amounts of the Organisation's interest-bearing financial assets and interest- bearing financial liabilities at carrying amounts as at 31 December 2020 and 2019:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Total interest-bearing financial assets | 68,133 | 59,298 |
| Total interest-bearing financial liabilities | (59,875) | (52,784) |
| | **8,258** | **6,514** |

## MANAGEMENT OF CAPITAL

The Organisation's objectives when maintaining capital are:
- To safeguard the Organisation's ability to continue as a going concern, so that it can continue to operate sufficiently;
- To comply with the capital requirements set by NBG and borrower.
- To provide an adequate return to shareholder.

The Organisation sets the amount of capital it requires in proportion to risk. The Organisation manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

In order to maintain or adjust the capital structure, the Organisation may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Organisation is also subject to minimum capital requirements established by covenants stated in loan agreements. See detailed information in Note 17.

For the year ended 31 December 2020 (In thousands of Georgian Lari)

## 5. PRIOR PERIOD RECLASSIFICATIONS

Where necessary, the corresponding figures have been reclassified to conform to the presentation of the current year amounts. The effect of reclassifications for the year ended 31 December 2019 is as follows:

| | As classified | Reclassification | As reclassified |
|---|---|---|---|
| **Statement of financial position** | | | |
| Tax liability | 19 | (19) | - |
| Other liabilities | 355 | 19 | 374 |
| **Statement of comprehensive income** | | | |
| General administrative expenses | (2,605) | 2,605 | - |
| Depreciation and amortisation | - | (900) | (900) |
| Other operating expenses | - | (1,705) | (1,705) |

## 6. CASH AND CASH EQUIVALENTS

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Cash on hand | 1,398 | 1,967 |
| Cash at Bank | 1,275 | 1,079 |
| | **2,673** | **3,046** |

Cash and cash equivalents distribution by currency is disclosed in Note 4.

## 7. LOANS TO CUSTOMERS

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Services | 27,855 | 20,237 |
| Trade | 16,148 | 14,034 |
| Consumption | 13,692 | 14,871 |
| Farming/agro-activities | 5,762 | 4,520 |
| Production/construction | 3,006 | 2,383 |
| Housing* | 2,121 | 2,958 |
| | **68,584** | **59,003** |
| Expected credit losses | (1,726) | (784) |
| **Total loans to customers** | **66,858** | **58,219** |

*Housing loans are loans issued for the purpose of purchase, repair and to arrange real estate.

For the year ended 31 December 2020 (In thousands of Georgian Lari)

# 7. LOANS TO CUSTOMERS (CONTINUED)

The following table provides information on the credit quality of loans to customers as at 31 December 2020:

| Loans to customers | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Services** | | | | |
| Not overdue | 25,733 | 561 | - | 26,294 |
| Overdue less than 30 days | 318 | - | - | 318 |
| 31 to 90 days overdue | - | 600 | - | 600 |
| 91 to 180 days overdue | - | - | 399 | 399 |
| More than 180 days overdue | - | - | 244 | 244 |
| **Total Services** | 26,051 | 1,161 | 643 | 27,855 |
| Loss alloiwance | (262) | (123) | (279) | (664) |
| **Carrying amount** | 25,789 | 1,038 | 364 | 27,191 |
| **Trade** | | | | |
| Not overdue | 14,711 | 595 | - | 15,306 |
| Overdue less than 30 days | 204 | 2 | - | 206 |
| 31 to 90 days overdue | - | 307 | - | 307 |
| 91 to 180 days overdue | - | - | 158 | 158 |
| More than 180 days overdue | - | - | 171 | 171 |
| **Total Trade** | 14,915 | 904 | 329 | 16,148 |
| Loss allowance | (141) | (65) | (135) | (341) |
| **Carrying amount** | 14,774 | 839 | 194 | 15,807 |
| **Consumption** | | | | |
| Not overdue | 12,383 | 589 | - | 12,972 |
| Overdue less than 30 days | 243 | - | - | 243 |
| 31 to 90 days overdue | - | 148 | - | 148 |
| 91 to 180 days overdue | - | - | 185 | 185 |
| More than 180 days overdue | - | - | 144 | 144 |
| **Total Consumption** | 12,626 | 737 | 329 | 13,692 |
| Loss allowance | (194) | (55) | (175) | (424) |
| **Carrying amount** | 12,432 | 682 | 154 | 13,268 |
| **Farming/agro-activities** | | | | |
| Not overdue | 5,348 | 55 | - | 5,403 |
| Overdue less than 30 days | 40 | - | - | 40 |
| 31 to 90 days overdue | - | 158 | - | 158 |
| 91 to 180 days overdue | - | - | 38 | 38 |
| More than 180 days overdue | - | - | 123 | 123 |
| **Total Farming/agro-activities** | 5,388 | 213 | 161 | 5,762 |
| Loss allowance | (61) | (32) | (73) | (166) |
| **Carrying amount** | 5,327 | 181 | 88 | 5,596 |
| **Production/construction** | | | | |
| Not overdue | 2,769 | 36 | - | 2,805 |
| 31 to 90 days overdue | - | 44 | - | 44 |
| 91 to 180 days overdue | - | - | 85 | 85 |
| More than 180 days overdue | - | - | 72 | 72 |
| **Total Production/construction** | 2,769 | 80 | 157 | 3,006 |
| Loss allowance | (23) | (9) | (60) | (92) |
| **Carrying amount** | 2,746 | 71 | 97 | 2,914 |
| **Housing** | | | | |
| Not overdue | 1,781 | 260 | - | 2,041 |
| Overdue less than 30 days | 23 | - | - | 23 |
| 31 to 90 days overdue | - | 8 | - | 8 |
| 91 to 180 days overdue | - | - | 48 | 48 |
| More than 180 days overdue | - | - | 1 | 1 |
| **Total Housing** | 1,804 | 268 | 49 | 2,121 |
| Loss allowance | (16) | (5) | (18) | (39) |
| **Carrying amount** | 1,788 | 263 | 31 | 2,082 |

For the year ended 31 December 2020 (In thousands of Georgian Lari)

# 7. LOANS TO CUSTOMERS (CONTINUED)

The following table provides information on the credit quality of loans to customers as at 31 December 2020:

| Loans to customers | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Farming/agro-activities** | | | | |
| Not overdue | 4,133 | 59 | - | **4,192** |
| Overdue less than 30 days | 102 | - | - | **102** |
| 31 to 90 days overdue | - | 143 | - | **143** |
| 91 to 180 days overdue | - | - | 83 | **83** |
| **Total Farming/agro-activities** | **4,235** | **202** | **83** | **4,520** |
| Loss allowance | (39) | (25) | (34) | **(98)** |
| **Carrying amount** | **4,196** | **177** | **49** | **4,422** |
| **Production/construction** | | | | |
| Not overdue | 2,216 | 15 | - | **2,231** |
| Overdue less than 30 days | 105 | - | - | **105** |
| 91 to 180 days overdue | - | - | 47 | **47** |
| **Total Production/construction** | **2,321** | **15** | **47** | **2,383** |
| Loss allowance | (16) | - | (20) | **(36)** |
| **Carrying amount** | **2,305** | **15** | **27** | **2,347** |
| **Services** | | | | |
| Not overdue | 19,419 | 244 | - | **19,663** |
| Overdue less than 30 days | 234 | 2 | - | **236** |
| 31 to 90 days overdue | - | 261 | - | **261** |
| 91 to 180 days overdue | - | - | 77 | **77** |
| **Total Services** | **19,653** | **507** | **77** | **20,237** |
| Loss allowance | (146) | (37) | (37) | **(220)** |
| **Carrying amount** | **19,507** | **470** | **40** | **20,017** |
| **Trade** | | | | |
| Not overdue | 13,425 | 154 | - | **13,579** |
| Overdue less than 30 days | 238 | 1 | - | **239** |
| 31 to 90 days overdue | - | 141 | - | **141** |
| 91 to 180 days overdue | - | - | 75 | **75** |
| **Total Trade** | **13,663** | **296** | **75** | **14,034** |
| Loss allowance | (106) | (30) | (37) | **(173)** |
| **Carrying amount** | **13,557** | **266** | **38** | **13,861** |
| **Consumption** | | | | |
| Not overdue | 13,787 | 566 | - | **14,353** |
| Overdue less than 30 days | 326 | 15 | - | **341** |
| 31 to 90 days overdue | - | 113 | - | **113** |
| 91 to 180 days overdue | - | - | 64 | **64** |
| **Total Consumption** | **14,113** | **694** | **64** | **14,871** |
| Loss allowance | (159) | (42) | (41) | **(242)** |
| **Carrying amount** | **13,954** | **652** | **23** | **14,629** |
| **Housing** | | | | |
| Not overdue | 2,715 | 203 | - | **2,918** |
| Overdue less than 30 days | 38 | - | - | **38** |
| 31 to 90 days overdue | - | 2 | - | **2** |
| **Total Housing** | **2,753** | **205** | **-** | **2,958** |
| Loss allowance | (13) | (2) | - | **(15)** |
| **Carrying amount** | **2,740** | **203** | **-** | **2,943** |

For the year ended 31 December 2020 (In thousands of Georgian Lari)

# 7. LOANS TO CUSTOMERS (CONTINUED)

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Organisation generally requests borrowers to provide it.

Loans to customers are generally collateralized by real estate and vehicles (few amounts are collateralized by precious metals).
The Organisation's policy is to issue loans collateralized with real estate with a loan-to-value ratio at the date of loan issuance of a maximum of 60%.

Loans collateralized by vehicles are secured by the underlying cars. The Organisation's policy is to issue loans collateralized by vehicles with a loan-to-value ratio at the date of loan issuance of a maximum of 80%.

Loans collateralized by precious metals are collateralized by underlying precious metals. The Organisation's policy is to issue loans collateralized by precious metals with a loan-to-value ratio at the date of loan issuance of a maximum of 90%. From 2016 year the Organisation does not grant loans collateralized by precious metals.

Following table provides information on the collateral, securing the loan portfolio, net of impairment:

| At 31 December 2020 | Real estate | Vehicles | Precious metals | No collateral | Total |
|---|---|---|---|---|---|
| Services | 18,002 | 9,150 | 36 | 2 | 27,190 |
| Trade | 13,036 | 2,771 | - | - | 15,807 |
| Consumption | 6,963 | 6,207 | 95 | 4 | 13,269 |
| Farming/agro-activities | 3,716 | 1,880 | - | - | 5,596 |
| Production/construction | 2,453 | 460 | - | - | 2,913 |
| Housing | 1,993 | 90 | - | - | 2,083 |
| | 46,163 | 20,558 | 131 | 6 | 66,858 |

| At 31 December 2019 | Real estate | Vehicles | Precious metals | No collateral | Total |
|---|---|---|---|---|---|
| Services | 14,241 | 5,729 | 47 | - | 20,017 |
| Trade | 10,763 | 3,089 | - | 11 | 13,863 |
| Consumption | 9,167 | 5,275 | 156 | 30 | 14,628 |
| Farming/agro-activities | 3,450 | 972 | - | - | 4,422 |
| Housing | 2,784 | 159 | - | - | 2,943 |
| Production/construction | 1,954 | 392 | - | - | 2,346 |
| | 42,359 | 15,616 | 203 | 41 | 58,219 |

For the year ended 31 December 2020 (In thousands of Georgian Lari)

# 7. LOANS TO CUSTOMERS (CONTINUED)

The following table includes summary information for financial assets whose cash flows were modified during the period as of the Organisation's restructuring activities and their respective effect on the Organisation's financial position as at 31 December 2020:

| | Amortised cost before modification | Net Modification (loss) |
|---|---|---|
| Services | 13,713 | (299) |
| Trade | 8,688 | (195) |
| Consumption | 7,548 | (185) |
| Housing | 1,664 | (43) |
| Farming/agro-activities | 1,501 | (35) |
| Production/construction | 1,497 | (33) |
| | **34,611** | **(790)** |

The following table shows reconciliations from the opening to the closing balances of the loss allowance of loans to customers as at 31 December 2020:

| **Loss allowance** | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **At the beginning of the year** | **479** | **136** | **169** | **784** |
| Transfer to Stage 1 | 10 | (10) | - | - |
| Transfer to Stage 2 | (21) | 21 | - | - |
| Transfer to Stage 3 | (16) | (49) | 65 | - |
| Net remeasurement of loss allowance | 61 | 171 | 449 | **681** |
| New financial assets originated | 573 | - | - | **573** |
| Transfer to Stage 2 | (82) | 82 | - | - |
| Transfer to Stage 3 | (88) | - | 88 | - |
| Repaid loans | - | - | - | - |
| Write-offs | | | | |
| **At the end of the year** | **697** | **289** | **740** | **1,726** |

The following table shows reconciliations from the opening to the closing balances of the loss allowance of loans to customers as at 31 December 2019:

| **Loss allowance** | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **At the beginning of the year** | **401** | **179** | **245** | **825** |
| Transfer to Stage 1 | 7 | (7) | - | - |
| Transfer to Stage 2 | (9) | 9 | - | - |
| Transfer to Stage 3 | (2) | - | 2 | - |
| Net remeasurement of loss allowance | 997 | 371 | 150 | **1,518** |
| New financial assets originated | 569 | - | - | **569** |
| Transfer to Stage 2 | (83) | 83 | - | - |
| Transfer to Stage 3 | (134) | - | 134 | - |
| Repaid loans | (220) | (33) | (47) | **(300)** |
| Write-offs | (1,047) | (466) | (315) | **(1,828)** |
| **At the end of the year** | **479** | **136** | **169** | **784** |

For the year ended 31 December 2020 (In thousands of Georgian Lari)

# 7. LOANS TO CUSTOMERS (CONTINUED)

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

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Loans to customers at amortised cost** | | | | |
| **At the beginning of the year** | 56,738 | 1,919 | 346 | 59,003 |
| Transfer to Stage 1 | 46 | (46) | - | - |
| Transfer to Stage 2 | (1,870) | 1,870 | - | - |
| Transfer to Stage 3 | (1,132) | (268) | 1,400 | - |
| New financial assets originated | 60,220 | - | - | 60,220 |
| Transfer to Stage 2 | (591) | 591 | - | - |
| Transfer to Stage 3 | (194) | - | 194 | |
| Net changes in interest accruals | 17 | 70 | 95 | 182 |
| Modification of contractual cash flows of financial assets | (711) | (61) | (18) | (790) |
| Repaid loans | (49,577) | (798) | (255) | (50,630) |
| Write-offs | - | - | (94) | (94) |
| FX and other movements | 607 | 86 | - | 693 |
| **At the end of the year** | 63,553 | 3,363 | 1,668 | 68,584 |

Stage 2 loans include loans restructured according to the Organisation's standard procedure with gross amount of GEL2,116 thousand and with ECL of GEL34 thousand.

Stage 3 loans include loans restructured according to the Organisation's standard procedure with gross amount of GEL38 thousand and with ECL of GEL2 thousand.

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

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Loans to customers at amortised cost** | | | | |
| **At the beginning of the year** | 47,316 | 1,298 | 558 | 49,172 |
| Transfer to Stage 1 | 41 | (41) | - | - |
| Transfer to Stage 2 | (1,138) | 1,138 | - | - |
| Transfer to Stage 3 | (70) | (4) | 74 | - |
| New financial assets originated | 66,374 | - | - | 66,374 |
| Transfer to Stage 2 | (590) | 590 | - | - |
| Transfer to Stage 3 | (280) | - | 280 | - |
| Net changes in interest accruals | 58 | 20 | (34) | 44 |
| Repaid loans | (54,301) | (1,014) | (79) | (55,394) |
| Write-offs | (1,046) | (466) | (315) | (1,827) |
| FX and other movements | 374 | 398 | (138) | 634 |
| **At the end of the year** | 56,738 | 1,919 | 346 | 59,003 |

Stage 2 loans include loans restructured according to the Organisation's standard procedure with gross amount of GEL1,283 thousand and with ECL of GEL20 thousand.
Stage 3 loans include loans restructured according to the Organisations' standard procedure with gross amount of GEL5 thousand and with ECL of GEL3 thousand.

For the year ended 31 December 2020 (In thousands of Georgian Lari)

# 7. LOANS TO CUSTOMERS (CONTINUED)

Movements in the loan impairment allowance are as follows:

| | 2020 | 2019 |
|---|---|---|
| Net remeasurement of loss allowance | 369 | 1,218 |
| New financial assets originated | 573 | 569 |
| **Total recognised loss allowance for the period** | **942** | **1,787** |
| Write-offs | 94 | - |
| Recoveries of amounts previously written off | (288) | (1,233) |
| **Total impairment losses on debt financial assets** | **748** | **554** |

# 8. OTHER ASSETS

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Repossessed property* | 1,173 | 737 |
| Financial assets at fair value though profit or loss | 170 | - |
| Prepayments | 95 | 223 |
| Tax asset | 90 | - |
| Cash collateral pledged under the credit line agreement | 66 | 272 |
| Other | 30 | 159 |
| | **1,624** | **1,391** |

Movements in the repossessed property for the year ended 31 December 2020 and 2019 are as follows:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **At the beginning of the year** | **737** | **318** |
| Additions | 520 | 791 |
| Disposals | (84) | (372) |
| **At the end of the year** | **1,173** | **737** |

*Repossessed property represents non-financial assets acquired by the Organisation to settle overdue loans. The assets are initially recognised at fair value when acquired and included in inventories within other assets depending on their nature and the Organisation's intention in respect of recovery of these assets and are subsequently re- measured and accounted for in accordance with the accounting policies. Inventories of repossessed property are recorded at the lower of cost or net realisable value.
The Organisation expects to dispose these assets in the foreseeable future. Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

For the year ended 31 December 2020 (In thousands of Georgian Lari)

## 9. DEFERRED TAX ASSET

| | 31 December 2018 | Recognised in profit or loss | 31 December 2019 | Recognised in profit or loss | 31 December 2020 |
|---|---|---|---|---|---|
| Loans to customers | 357 | (90) | 267 | 10 | 277 |
| Right-of-use assets | - | (672) | (672) | 64 | (608) |
| Property and equipment | (110) | (92) | (202) | 16 | (186) |
| Intangible assets | 19 | (10) | 9 | 16 | 25 |
| Subordinated borrowings and other borrowed funds | 30 | 14 | 44 | 38 | 82 |
| Lease liabilities | - | 705 | 705 | 37 | 742 |
| Other liabilities | 50 | (7) | 43 | (19) | 24 |
| | 346 | (152) | 194 | 162 | 356 |

Income tax expense for the years ended 31 December 2020 and 2019 comprises the following:

| | 2020 | 2019 |
|---|---|---|
| Current income tax | (314) | (376) |
| Effect of temporary differences | 162 | (152) |
| | (152) | (528) |

Reconciliation of the Income tax expense based on actual statutory rate is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Profit before income tax** | 1,635 | 3,048 |
| Applicable tax rate | 15% | 15% |
| **Theoretical Income tax expense** | (245) | (457) |
| Effect of permanent differences | 93 | (71) |
| **Income tax expense** | (152) | (528) |

For the year ended 31 December 2020 (In thousands of Georgian Lari)

# 10. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Organisation's lease agreements, for which right of use assets are recognised, include leases to the head office and branches. The lease of the head office is obtained from different third parties. The renewal option is implied through customary business practices. Lease payments are in GEL as well as in USD. Lease terms and incremental borrowing rates are provided as follows:

months

| Lease agreement | Non-cancellable period | Enforceable period | Lease term | Incremental borrowing rate |
|---|---|---|---|---|
| Head office and branches | - | 24-98 months | 48-118 months | 7.5%-12.5% |

Right-of-use assets can be presented as follows:

| | 2020 | 2019 |
|---|---|---|
| **At the beginning of the year** | 4,483 | 1,755 |
| New lease contracts | 396 | 3,306 |
| Amortisation | (829) | (578) |
| **At the end of the year** | 4,050 | 4,483 |

Lease liabilities can be presented as follows:

| | 2020 | 2019 |
|---|---|---|
| **At the beginning of the year** | 4,700 | 1,755 |
| New lease contracts | 396 | 3,173 |
| Interest expense | 401 | 302 |
| Rent concessions* | (100) | - |
| Lease payments | (1,057) | (845) |
| Foreign exchange movements | 607 | 315 |
| **At the end of the year** | 4,947 | 4,700 |

*The Organisation has elected to apply the practical expedient introduced by the amendments to IFRS 16 to all rent concessions that satisfy the criteria. Substantially all of the rent concessions entered into during year satisfy the criteria to apply the practical expedient. The application of the practical expedient has resulted in the reduction of total lease liabilities of GEL100 thousand. The effect of this reduction has been recorded in profit or loss in the period in which the event or condition that triggers those payments occurred.

The Organisation has no borrowings received in the current or comparable period with similar currency, maturity and terms. IBR was determined based on observable market data for a similar sector.

For the year ended 31 December 2020 (In thousands of Georgian Lari)

# 11. PROPERTY AND EQUIPMENT

| Historical cost | Land and buildings | Furniture and equipment | Leasehold improvements | Total |
|---|---|---|---|---|
| **At 31 December 2018** | 1,184 | 911 | 325 | 2,420 |
| Additions | - | 424 | 167 | 591 |
| Write-offs | - | - | (19) | (19) |
| **At 31 December 2019** | 1,184 | 1,335 | 473 | 2,992 |
| Additions | - | 282 | 216 | 498 |
| Write-offs | - | (9) | (38) | (47) |
| **At 31 December 2020** | 1,184 | 1,608 | 651 | 3,443 |
| **Accumulated Depreciation** | | | | |
| **At 31 December 2018** | (16) | (353) | (118) | (487) |
| Depreciation for the year | (21) | (173) | (55) | (249) |
| Write-offs | - | - | 6 | 6 |
| **At 31 December 2019** | (37) | (526) | (167) | (730) |
| Depreciation for the year | (21) | (240) | (90) | (351) |
| Write-offs | - | 9 | 33 | 42 |
| **At 31 December 2020** | (58) | (757) | (224) | (1,039) |
| **Carrying amount** | | | | |
| **At 31 December 2019** | 1,147 | 809 | 306 | 2,262 |
| **At 31 December 2020** | 1,126 | 851 | 427 | 2,404 |

# 12. SUBORDINATED BORROWINGS AND OTHER BORROWED FUNDS

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Principal | 54,261 | 47,677 |
| Accrued interest | 667 | 407 |
| | 54,928 | 48,084 |

| | Currency | Nominal interest rate | Year of maturity | 31 December 2020 |
|---|---|---|---|---|
| **Secured loans** | | | | |
| From local financial institutions | GEL | 9%-15% | 2021-2023 | 25,494 |
| **Unsecured loans** | | | | |
| From international financial institutions | USD | 8%-9% | 2021-2022 | 15,854 |
| Subordinated loans from related parties | USD | 10%-11% | 2024-2025 | 5,801 |
| From related parties | USD | 8%-11% | 2021-2024 | 1,094 |
| From related parties | USD | 14% | 2021 | 20 |
| From related parties | EUR | 6% | 2021 | 65 |
| From individuals | USD | 2%-8% | 2021-2022 | 5,765 |
| From individuals | GEL | 14% | 2021 | 206 |
| From individuals | EUR | 6% | 2021 | 21 |
| From other legal entities | USD | 7%-8% | 2021-2022 | 608 |
| | | | | 54,928 |

For the year ended 31 December 2020 (In thousands of Georgian Lari)

## 12. SUBORDINATED BORROWINGS AND OTHER BORROWED FUNDS (CONTINUED)

| | Currency | Nominal interest rate | Year of maturity | 31 December 2020 |
|---|---|---|---|---|
| **Secured loans** | | | | |
| From local financial institutions | GEL | 10%-17% | 2020-2021 | 20,989 |
| From local financial institutions | USD | 7%-8% | 2021-2028 | 5,231 |
| **Unsecured loans** | | | | |
| From international financial institutions | USD | 8%-9% | 2021 | 8,000 |
| Subordinated loans from related parties | USD | 10%-11% | 2024-2025 | 5,080 |
| From related parties | USD | 4%-11% | 2020-2024 | 2,874 |
| From related parties | GEL | 14% | 2020-2021 | 156 |
| From related parties | EUR | 6% | 2020-2021 | 78 |
| From individuals | USD | 5%-11% | 2020-2021 | 4,222 |
| From individuals | GEL | 14% | 2020 | 45 |
| From individuals | EUR | 6% | 2020 | 17 |
| From other legal entities | USD | 8.75% | 2020 | 876 |
| From other legal entities | GEL | 15.25% | 2020 | 516 |
| | | | | **48,084** |

Loans received from Local Financial Institutions for 2020 and 2019 were secured with Organisation's real estate with carrying amount of GEL740 thousand and GEL631 thousand, loan portfolio with amount of GEL37,000 thousand and GEL37,000 thousand, cash collaterals GEL66 thousand and GEL272 thousand, respectively.

Changes in borrowings and subordinated borrowings arising from financing activities, including both changes arising from cash flows and non-cash changes can be presented as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Subordinated borrowings | Other borrowed funds | Subordinated borrowings | Other borrowed funds |
| **At the beginning of the year** | 5,080 | 43,004 | 3,913 | 34,516 |
| Repayment | - | (91,803) | - | (56,016) |
| Proceeds | - | 94,288 | 844 | 63,464 |
| Interest paid | (600) | (5,131) | (521) | (4,065) |
| **Net Cash flows:** | | | | |
| Interest expense | 551 | 5,338 | 545 | 4,124 |
| The effect of changes in foreign exchange rates | 770 | 3,431 | 299 | 981 |
| **At the end of the year** | **5,801** | **49,127** | **5,080** | **43,004** |

## 13. OTHER LIABILITIES

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Financial liabilities at fair value though profit or loss | 448 | - |
| Payables from received services | 140 | 90 |
| Salaries payable | 86 | 216 |
| Other | 91 | 68 |
| | **765** | **374** |

For the year ended 31 December 2020 (In thousands of Georgian Lari)

# 14. SHARE CAPITAL AND RESERVES

As at 31 December 2020 and 2019 the following shareholders owned shares of the Organisation and comprise the Shareholder Group:

| | 31 December 2020 | | | 31 December 2019 | | |
|---|---|---|---|---|---|---|
| **Shareholder** | **Percentage of total ordinary shares** | **Number of ordinary shares** | **Number of preference shares** | **Percentage of total ordinary shares** | **Number of ordinary shares** | **Number of preference shares** |
| Gia Petriashvili | 32.18% | 716,000 | 200 | 32.55% | 716,000 | 200 |
| Otar Rukhadze | 14.61% | 325,000 | 800 | 14.77% | 325,000 | 800 |
| Tengiz Maziashvili | 9.42% | 209,500 | 250 | 9.52% | 209,500 | 250 |
| Taras Nizharadze | 8.36% | 186,000 | 740 | 8.45% | 186,000 | 740 |
| Murman Ambroladze | 8.09% | 180,000 | 100 | 8.18% | 180,000 | 100 |
| Goderdzi Meladze | 6.74% | 150,000 | 300 | 6.82% | 150,000 | 300 |
| Giorgi Gotoshia | 6.74% | 150,000 | 100 | 6.82% | 150,000 | 100 |
| Giorgi Vachnadze | 5.55% | 123,500 | 110 | 5.61% | 123,500 | 110 |
| JB LLC | 2.70% | 60,000 | 200 | 2.73% | 60,000 | 200 |
| Eter Chachibaia | 1.80% | 40,000 | - | 1.59% | 35,000 | - |
| Giorgi Ghvaladze | 1.71% | 38,000 | - | 1.41% | 31,000 | - |
| Tatia Jajanashvili | 1.21% | 27,000 | - | 0.91% | 20,000 | - |
| Nino Devdariani | 0.90% | 20,000 | - | 0.64% | 14,000 | - |
| | **100.00%** | **2,225,000** | **2,800** | **100.00%** | **2,200,000** | **2,800** |

## ISSUED CAPITAL

The authorised, issued and outstanding share capital comprises 2,225,000 ordinary shares (2019: 2,200,000). All shares have a nominal value of GEL 1. During 2020, 25,000 ordinary shares were issued (2019: 15,400).

Difference between nominal value and market price is recognized in share premium. Share premium comprises GEL 996 thousand as at 31 December 2020 (As at 31 December 2019: GEL 900 thousand).

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

## PREFERENCE SHARES

During 2018, the Organisation issued 2,800 non-redeemable preference shares with nominal value USD 1,000 (2020 and 2019: no additional issue). The Dividend rate on the preference shares is 12.5% per annum, payable semi- annually, subject to the Annual General Meeting (AGM) approval in each given year. The ability to pay dividends is subject to the Organisation's financial condition and results of operations and other factors considered by Annual General Meeting.

According the Charter of the Organisation, if based on the decision of AGM dividends on preference shares will not be paid two times in a row or dividend rate will be decreased, the holder of the preference shares has right to convert its preference shares into ordinary shares.

## DIVIDENDS

Dividends payable are restricted to the maximum retained earnings of the Organisation, which are determined according to Georgian legislation. During 2020 and 2019 reporting years the Organisation declared and issued preference dividends of GEL741 thousand and GEL553 thousand accordingly.

For the year ended 31 December 2020 (In thousands of Georgian Lari)

# 15.NET INTEREST INCOME

| **Interest income is arising from:** | **2020** | **2019** |
|---|---|---|
| Loans to customers | 16,608 | 14,079 |
| Placements with banks | 40 | 1 |
| Modification loss of contractual cash flows of financial assets | (790) | - |
| | **15,858** | **14,080** |

| **Interest expense is arising from:** | **2020** | **2019** |
|---|---|---|
| Borrowings from financial institutions | (3,728) | (3,140) |
| Borrowings from individuals | (1,011) | (1,089) |
| Borrowings from international financial institutions | (960) | (197) |
| Leases | (401) | (302) |
| Other borrowings | (190) | (243) |
| | **(6,290)** | **(4,971)** |

# 16.OTHER OPERATING EXPENSES

| | **2020** | **2019** |
|---|---|---|
| Advertising and marketing | (362) | (662) |
| Consulting* | (192) | (143) |
| Office supplies | (158) | (154) |
| Application inspection | (104) | (98) |
| Utilities | (94) | (78) |
| Communication | (92) | (92) |
| Security | (57) | (50) |
| Rent | (50) | (80) |
| Tax expense other than income tax | (43) | (24) |
| Bank charges | (33) | (63) |
| Transportation | (31) | (47) |
| Business trips | (30) | (49) |
| Other | (252) | (165) |
| | **(1,498)** | **(1,705)** |

*For 2020 and 2019, professional fees paid to the audit firm for the provision of audit and other professional services comprised GEL 51 thousand and GEL 90 thousand.

# 17.COMMITMENTS AND CONTINGENCIES

## LITIGATION

In the ordinary course of business, companies are usually subject to legal actions and complaints.

Following the Organisation's customers' failure to meet loan repayment obligations the Organisation is involved in legal disputes against such customers. The highest possible outcome from such legal disputes is the amount of loans receivable from such customers (including accrued interest and other charges).

Management is unaware of any significant actual, pending or threatened claims against the Organisation.

## COMPLIANCE WITH COVENANTS

The Organisation is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Organisation including declaration of default.

The Organisation has complied with all the financial covenants stipulated by lending agreements as of 31 December 2020 and 31 December 2019.

## TAXATION CONTINGENCIES

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

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

## FINANCIAL GUARANTEES

As at 31 December 2020 the Organisation has issued financial guarantee of GEL 2,200 thousand (At 31 December 2019: USD 850 thousand) to a Georgian Commercial Bank to secure loan of a related party with premium rate of 2%. The period of the guarantee is 10 years. The loan is secured by the property, for which the related party obtained the loan. The property (residential–commercial building in Tbilisi) is pledged under the same loan as a primary security. Additionally, as at 31 December 2020 and 2019, the Organisation pledged USD 500 thousand of loans to customers' portfolio as second mortgage to a Georgian bank to secure loan of a related party. Based on management's assessment, there is a remote chance of default. As at 31 December 2020 and 2019 the Organisation allocated financial guarantee in Stage 1 for the purposes of identifying expected credit loss under IFRS 9. Management estimates that ECL is immaterial at reporting date.

## MANAGEMENT REPORT

In accordance with the Law on accounting, reporting and auditing (article 7) the Organisation has an obligation to prepare and submit Management Report to the State Regulatory Authority, together with Independent Auditors' Report no later than 1 October of the year following the reporting period. The Organisation has not prepared Management Report at the date of issue of the financial statements.

For the year ended 31 December 2020 (In thousands of Georgian Lari)

# 17.COMMITMENTS AND CONTINGENCIES (CONTINUED)

## REGULATIONS OF NATIONAL BANK OF GEORGIA

The Organisation is in compliance with minimum statutory capital requirements – the minimum cash contribution in the equity should not be less than 1,000 thousand (2018: GEL 500 thousand).

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

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

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

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

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Share capital | 2,225 | 2,200 |
| Share premium | 996 | 900 |
| Preference shares | 7,347 | 7,347 |
| Retained earnings | 6,994 | 6,252 |
| Eligible subordinated debt | 5,801 | 5,080 |
| **Regulatory capital before reductions** | 23,363 | 21,779 |
| Less intangible assets | (237) | (262) |
| **Regulatory capital** | 23,126 | 21,517 |

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Total assets before reduction | 78,202 | 69,857 |
| Less intangible assets | (237) | (262) |
| **Total assets after reduction** | 77,965 | 69,595 |

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Capital adequacy ratio** | 30% | 31% |

For the year ended 31 December 2020 (In thousands of Georgian Lari)

# 18.TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, could be one or more of the following:
a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Organisation (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Organisation that gives then significant influence over the Organisation; and that have joint control over the Organisation;
b) Members of key management personnel of the Organisation or its parent;
c) Close members of the family of any individuals referred to in (a) or (b);
d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (b);

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Organisation and other related parties are disclosed below.

Related party balances and transactions as and for the year ended 31 December 2020:

| Financial statement caption | Shareholder | Other related parties | Key management personnel |
|---|---|---|---|
| Subordinated borrowings | 5,801 | - | - |
| Other borrowed funds | - | 1,179 | - |
| Short-term employee benefits | - | - | (739) |
| Interest expense | (551) | (142) | - |

Related party balances and transactions as and for the year ended 31 December 2019:

| Financial statement caption | Shareholder | Other related parties | Key management personnel |
|---|---|---|---|
| Subordinated borrowings | 5,080 | - | - |
| Other borrowed funds | 1,953 | 1,156 | - |
| Other assets | 3 | - | - |
| Other liabilities | - | - | 203 |
| Short-term employee benefits | - | - | (763) |
| Interest expense | (683) | (114) | - |

# 19.EVENTS AFTER REPORTING PERIOD

## RECEIPT OF BORROWINGS

At 4 March 20201 the Organisation received borrowings from International Financial Institutions with amount of GEL3,326 thousand and USD500 thousand. Nominal interest rate is determined 14.2% and 6.4%, respectively. Maturity date is 2022-2023. Received borrowing from Local Financial Institutions amounted GEL3,000 thousand. Interest rate is 14% and repayment period of borrowings is 2022.

# 20.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## FINANCIAL INSTRUMENTS INITIAL RECOGNITION

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

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

• 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 Organisation recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;

• 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 Organisation recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognised.

## FINANCIAL ASSETS

Classification and subsequent measurement
On initial recognition, a financial asset is classified into one of the following measurement categories: amortised cost; fair value through other comprehensive income (FVOCI); or fair value through profit or loss (FVTPL).

## FINANCIAL ASSETS AT AMORTISED COST

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
• the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

## FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

# 20.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

The Group's all financial assets are measured at amortised cost, except derivative financial assets.

## BUSINESS MODEL ASSESSMENT

There are three business models available under IFRS 9:
- Hold to collect: It is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest form the counterparty.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change or to hold the assets for liquidity purposes.
- Other: all those models that do not meet the 'hold to collect' or 'hold to collect and sell' qualifying criteria.

The assessment of business model requires judgment based on facts and circumstances at the date of the assessment. The business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios per instrument type and is based on observable factors.

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Organisation's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Organisation's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

# 20.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## SOLELY PAYMENTS OF PRINCIPAL AND INTEREST (SPPI)

If a financial asset is held in either to a Hold to Collect or a Hold to Collect and Sell business model, then assessment to determine whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding at initial recognition is required to determine the classification. The SPPI test is performed on an individual instrument basis.

Contractual cash flows, that represent solely payments of principal and Interest on the principal amount outstanding, are consistent with basic lending arrangement. Interest is consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks (e.g. liquidity risk) and costs (e.g. administrative costs) associated with holding the financial asset for a particular period of time, and a profit margin that is consistent with a basic lending arrangement.

In assessing whether the contractual cash flows are SPPI, the Organisation considers whether the contractual terms of the financial asset contain a term that could change the timing or amount of contractual cash flows arising over the life of the instrument which could affect whether the instrument is considered to meet the SPPI test.

If the SPPI test is failed, such financial assets are measured at FVTPL with interest earned recognised in other interest income.

## DERECOGNITION OF FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Organisation's statement of financial position) when:

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

## RECLASSIFICATION

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Organisation changes its business model for managing financial assets.

## IMPAIRMENT OF FINANCIAL ASSETS

## CHANGES TO THE IMPAIRMENT ESTIMATION

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

IFRS 9 requires the Organisation to record ECL on all of its debt financial assets at amortised cost or FVOCI. The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

For the year ended 31 December 2020 (In thousands of Georgian Lari)

# 20.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IFRS 9, the Organisation first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

Collectively assessed loans are grouped on the basis of shared credit risk characteristics, collateral type and industry.

## THREE STAGE APPROACH

IFRS 9 introduces a three-stage approach to impairment for Financial Instruments that are performing at the date of origination or purchase. This approach is summarised as follows:

**Stage 1:** The Organisation recognizes a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition. For those financial assets with a remaining maturity of less than 12 months, a PD is used that corresponds to the remaining maturity.

**Stage 2:** The Organisation recognizes a credit loss allowance at an amount equal to lifetime expected credit losses for those Financial Instruments which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default that represents the probability of default occurring over the remaining lifetime of the Financial Instrument. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1. Financial Instruments in stage 2 are not yet deemed to be credit-impaired.

**Stage 3:** If the Financial Instrument is credit-impaired, it is then moved to stage 3. The Organisation recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a Probability of Default (PD) of 100
% for those Financial Instruments that are credit-impaired.

Considering overdue days, the distribution of loans between three stages can be presented as follows:

| Collateral | Stage 1 | Stage 2 | Stage 3 |
|---|---|---|---|
| Real estate | 0-30 | 31-90 | >90 |
| Movable property | 0-30 | 31-90 | >90 |
| Third party personal guarantees | 0-30 | 31-90 | >90 |
| Unsecured | 0-30 | 31-90 | >90 |

# 20.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Organisation automatically classified issued new loans into Stage 1. The loan will be transferred on the stage 2 if any of below-mentioned significant increase in credit risks trigger events occur:
a. Loan being past due for more than 30 days;
b. Restructuring of exposures;
c. Loss of the job by the borrower;
d. Borrower is unfit for work;
e. Fraud in the borrower's business (for the business loans);
f. Sale of crucial part of the business or property which is necessary for the entity's profit-making day to day activities (for business borrowers);
g. Deterioration of the macroeconomic outlook relevant to a particular borrower or a group of borrowers;
h. Deterioration of the regulatory, political, and technological outlook that relevant to a particular borrower or to a group of borrowers;
i. Adverse changes in the sector or industry conditions in which the borrower operates. The loan will be transferred from Stage 2 to Stage 1 if:
a. The borrower pays the loan according to the loan schedule for 6 months after the Stage 2 trigger event occurrence;
b. Improvement of the circumstances due to which loan was transferred on Stage 2;
c. Restructured loans are never moved back to Stage 1;

Defaulted loans are transferred on the Stage 3 at the moment of the default. Loans which are on the Stage 3 are not transferred on the other stage.

## DEFINITION OF DEFAULT

The Organisation considers loan to be in default if any of the following criteria are met:
a. Loans being past due for more than 90 days;
b. Death of the borrower;
c. A default, initiation of bankruptcy proceedings (for business borrowers);
d. or Fraud from Borrower side toward communication with MFO such as: providing misleading information on financial results; Collaboration of MBC staff member with the borrower for the purpose of manipulation of desired results
e. Force majeure
The definition of default is in line with relevant regulations taking into account the 90 days past due cap presumption IFRS 9. The loans for which the Organisation recognizes default are credit-impaired loans.

## SIGNIFICANT INCREASE IN CREDIT RISK

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Organisation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Organisation's historical experience and expert credit assessment and including forward-looking information.
The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:
• the remaining lifetime PD at the reporting date; with
• the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.
As a backstop, the Organisation considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

# 20.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes more than 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement tocredit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

## FORWARD-LOOKING INFORMATION

Under IFRS 9, the allowance for credit losses is based on reasonable and supportable forward-looking information obtainable without undue cost or effort, which takes into consideration past events, current conditions and forecasts of future economic conditions.

The Organisation incorporates forward-looking information into its measurement of ECLs.

The Organisation has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and probabilities of default. This key driver is GDP forecasts. Predicted relationships between the key indicator and default and loss rates of loan portfolios have been developed based on analysing historical data over the past 5 years.

## MODIFIED FINANCIAL ASSETS

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

The Organisation renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default. Under the Organisation’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

Restructured loans are transferred to stage 2 and lifetime ECL is applied.

The revised terms usually include extending the maturity and changing the timing of interest payments.

# 20.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## RESTRUCTURED FINANCIAL ASSETS

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

## MEASUREMENT OF ECLS

The key inputs into the measurement of ECLs are the term structures of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are derived from internally developed statistical models and other historical data that leverage regulatory models. They are adjusted to reflect forward-looking information as described below. These variables (excluding EAD) are calculated annually. EAD is renewed whenever the loan impairment allowance is calculated.

## PROBABILITY OF DEFAULT (PD)

PD estimates are estimates at a certain date, which are calculated based on statistical rating models.

If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

PDs are calculated based on three-year average. This rate is calculated separately for all segments, loans are grouped into segments according to the types of loan collateral. The PD is calculated by matching the migration matrices to the loan portfolio, which shows the probability of the loan portfolio shifting between the impairment stages.

## LOSS GIVEN DEFAULT (LGD)

LGD is defined as the likely loss in case of a counterparty default. The Organisation estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD model considers cash recoveries only. LGD is calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

# 20.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## EXPOSURE AT DEFAULT (EAD)

EAD represents the expected exposure in the event of a default. The Organisation derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is the gross carrying amount at default.
Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- product type;
- collateral type;

The groupings are subject to regular reviews to ensure that exposures within a particular group remain appropriately homogeneous.

## FINANCIAL LIABILITIES

The Organisation classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Organisation has classified all financial as liabilities within “Other financial liabilities” category.

Other financial liabilities include the following items: borrowings and other short-term monetary liabilities.

Other financial liabilities are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

## OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

## RECLASSIFICATION

Financial liabilities are not reclassified subsequent to their initial recognition.

## DERECOGNITION OF FINANCIAL LIABILITIES

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

# 20.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## FAIR VALUE HIERARCHY

IFRS 13 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

1: quoted market price (unadjusted) in an active market for an identical instrument.
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.
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 estimated fair values of all financial instruments as at 31 December 2019 and 31 December 2018 approximate their carrying amounts.

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 realisable in an immediate sale of the assets or transfer of liabilities.

## RECOGNITION OF INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in profit or loss using the effective interest method. Other fees and commissions for activities not related to the internal rate of return on loans, advances and other receivables are not settled at effective interest rate but spread over time at the straight-line method or recognised on a one-off basis at the moment of their receipt depending on the nature of such fees and commissions.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Tr financial asset or financial liability.

Other income and expenses are recognized in accordance with the accrual method, which is in line with the volume of services issued or received.

For Financial Instruments in Stage 1 and Stage 2, the Organisation calculates interest income by applying the Effective Interest Rate (EIR) to the gross carrying amount. Interest income for financial assets in Stage 3 is calculated by applying the EIR to the amortised cost (i.e. the gross carrying amount less credit loss allowance). For Financial Instruments classified as purchased or originated credit-impaired only, interest income is calculated by applying a credit adjusted EIR to the amortised cost of these purchased or originated credit-impaired assets.

## PRESENTATION

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost.

Interest expense presented in the statement of profit or loss and other comprehensive income includes interest on financial liabilities measured at amortised cost.

# 20.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## FEES AND COMMISSION

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

A contract with a customer that results in a recognised financial instrument in the Organisation's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Organisation first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

## SALARIES AND OTHER EMPLOYEE BENEFITS

Wages, salaries, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of The Organisation.

## RECOGNITION OF OPERATING AND ADMINISTRATIVE EXPENSES

Expenses are recognised in the statement of comprehensive income if there arises any decrease of future economic profit related to the decrease of an asset or increase of a liability that can be reliably assessed.

Expenses are recognized in the statement of comprehensive income immediately, if the expenses do not result in future economic profit anymore, or if future economic profit do not meet or stop to meet the requirements of recognition as an asset in the balance sheet.

## LEASES

## THE ORGANISATION AS LESSEE

## IDENTIFYING THE LEASE

A contract is, or contains, a lease when it conveys the right to use an underlying asset for a period of time, in exchange for consideration. At inception of a contract, the Organisation assesses whether it meets the two following cumulative conditions to be qualified as a lease:

- its execution involves the use of an identified asset, and
- it conveys the right to direct the use of that identified asset.

## INITIAL RECOGNITION

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Leases are recognised on the Organisation's balance sheet as follows:

- An asset representing the right to use the underlying asset over the lease term;
- A liability for the obligation to pay the lease payments.

# 20.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Organisation's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Organisation if it is reasonably certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

At the commencement date, the Organisation measures the right-of-use asset at cost. The cost of the right-of-use asset is comprised:

- The amount of the initial measurement of the lease liability;
- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Organisation is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

## SUBSEQUENT MEASUREMENT

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Organisation revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the revised discount rate.

# 20.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Organisation renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the stand-alone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right- of-use asset is adjusted by the same amount.

The Organisation elects, by class of underlying asset, not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

## DETERMINATION OF LEASE TERM

The lease term is defined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (including the renewal option implied through customary business practices) 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.

Management applies judgement to determine the lease term when contracts include renewal options that are exercisable only by the Organisation. It considers all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Organisation reassesses the lease term if there is a significant event or a change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew, or to terminate the lease.

## DETERMINATION OF INCREMENTAL BORROWING RATE (IBR)

IBR is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment.

The management applies judgement to estimate the IBR. The management uses an observable information to determine the base rate and adjustments for the lessee specific factors and the asset factors (the adjustment for security).

# 20.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## DETERMINATION OF LEASE PAYMENTS

In Georgia it is customary that lease renewal option is implied through customary business practices and not all renewal options are documented within the lease agreements. In such cases, the initial measurement of the lease liability assumes the payment for renewal period will remain unchanged throughout the lease term.

## SHORT-TERM LEASES AND LEASES OF LOW-VALUE ASSETS

The Organisation applies the recognition exemption for short-term leases (i.e. lease with a lease term of 12 months or less from the commencement date) and leases of low-value assets. Associated lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

## TAXATION

The tax expense for the year comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in Georgia and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rate (and laws) that has been enacted or substantially enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity where there is an intention to settle the balances on a net basis.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, and all bank placements or receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents.

# 20.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation (amortisation) and recognized impairment loss, if any. Depreciation (amortisation) is charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. Depreciation (amortisation) is calculated on a straight-line basis at the following useful lives:

| | Useful life (years) |
|---|---|
| Buildings | 10 – 30 |
| Leasehold improvements | Lease contract term |
| Furniture and equipment | 3 – 5 |

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. The intangible assets with definite useful lives are amortised on a straight-line basis over expected useful lives.

## SHARE CAPITAL AND DIVIDENDS

Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared. Dividends in relation to preference shares are reflected as an appropriation of retained earnings in the period when they are approved by Annual General Meeting in each given year.

Preference share capital that is non-redeemable with discretionary dividends is classified as equity.

# 20.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## FOREIGN CURRENCY TRANSACTIONS

Items included in the financial statements are measured using the currency of the primary economic environment in which The Organisation operates ('the functional currency'). Financial statements are presented in thousands of Georgian Lari (GEL), which is The Organisation's functional and presentation currency.

Monetary assets and liabilities are translated into The Organisation's functional currency at the official exchange rate of the National Bank of Georgia.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into Organisation's functional currency at year-end official exchange rates are recognised in the statement of comprehensive income. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Table below presents the closing exchange rates by the National Bank of Georgia as at 31 December 2020 and 2019:

| | USD / GEL |
|---|---|
| Exchange rate as at 31 December 2020 | 3.2766 |
| Exchange rate as at 31 December 2019 | 2.8677 |

## EVENTS AFTER REPORTING PERIOD

Events after the reporting period and events before the date of financial statements authorisation for issue that provide additional information about the Organisation's financial statements are reported in the financial statements. Post-balance sheet events that do not affect the financial position of the Organisation at the balance sheet date are disclosed in the notes to the financial statements when material.

MBC