JSC MFO MICRO BUSINESS CAPITAL

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the year ended 31 December 2022

CONTENTS:

INDEPENDENT AUDITORS' REPORT 3

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION 6
STATEMENT OF COMPREHENSIVE INCOME 7
STATEMENT OF CHANGES IN EQUITY 8
STATEMENTS OF CASH FLOWS 9

NOTES TO THE FINANCIAL STATEMENTS

1. General information 10
2. Basis of preparation 10
3. Critical accounting estimates and judgements 12
4. Financial instruments – risk management 13
5. Cash and cash equivalents 17
6. Loans to customers 17
7. Other assets 23
8. Deferred tax asset 24
9. Right-of-use assets and lease liabilities 24
10. Property and equipment 25
11. Subordinated borrowings and other borrowed funds 26
12. Other liabilities 27
13. Share capital and reserves 27
14. Net interest income 29
15. Other operating expenses 29
16. Commitments and contingencies 29
17. Transactions with related parties 31
18. Events after reporting period 32
19. Summary of significant accounting policies 32

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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 2022, 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 2022, 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.

Key Audit Matters

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

Key audit matter	How our audit addressed it
Expected credit loss allowance of loans to customers	
We focused on this area as the management's estimates regarding the expected credit loss ('ECL') allowance for loans to customers are complex, require a significant degree of judgement and are subject to high degree of estimation uncertainty. Under IFRS 9, Financial Instruments, management is required to determine the credit loss allowance expected to occur over either a 12-month period or the remaining life of an asset, depending on the stage allocation of the individual asset. This staging is determined by assessing whether or not there has been a significant increase in credit risk ('SICR') or default of the borrower since loan origination. Some of the criteria applied by management for such an assessment are highly judgmental and involve qualitative assessment of borrowers' creditworthiness.	We understood and evaluated the design of the key controls over the determination of ECL allowance. These controls included among others: - Controls including periodic reviews of the policy and models, testing model estimates against actual outcomes and approval of model methodology changes; - Review and approval of the key judgements and assumptions used for determining LGDs and PDs; - Controls over key parameters (such as PD and LGD) calculation; - Controls over regular monitoring of the financial standing of the borrowers; and - Controls over ECL calculation and analysis of results.

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It is also necessary to consider the impact of future macroeconomic conditions in the determination of ECLs. The economic outlook is stable despite the inflationary pressures. We consider the appropriateness of the model methodologies and the following judgements used in the determination of the modelled ECL allowance to be significant: - Highly judgmental criteria applied for identification of SICR, involving qualitative assessment of borrowers' creditworthiness; - Critical assumptions applied in the determination of loss given default ('LGD') and probability of default ('PD').	We noted no exceptions in the design or operating effectiveness of the above controls. In addition, we performed the substantive procedures described below. We assessed whether the IFRS 9 ECL model methodologies developed by management are appropriate. This included an evaluation of the judgmental criteria set by management for determining whether there had been a SICR, and the critical judgements and assumptions applied in determination of LGDs and PDs. We concluded that management's judgements in deriving SICR, LGDs and PDs were reasonable. We independently verified the calculation of ECL and assessed whether the ECL calculations were consistent with the approved model methodologies. We evaluated the adequacy and appropriateness of disclosures related to ECL for compliance with the requirements of IFRS.

Other information

The management is responsible for the preparation of other information, which is given in the management report. Other information was not provided until the date of auditor's opinion. Our opinion on financial statements does not cover abovementioned other information. Probably, management report will be available to us after the date of auditor's opinion. In preparing the financial statements, we are responsible to review the above mentioned other information and assess whether it is materially inconsistent with the financial statements or with evidence obtained during the audit or gives the impression that it is materially misstated. If based on our work performed, we conclude that other information is materially misstated, we are obliged to disclose this information.

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)

For and on behalf of BDO Audit LLC

Tbilisi, Georgia

15 June 2023

JSC MFO MICRO BUSINESS CAPITAL

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

(In thousands of Georgian Lari)

	Note	31 December 2022	31 December 2021
Assets			
Cash and cash equivalents	5	6,778	13,879
Loans to customers	6	90,241	72,817
Other assets	7	4,109	1,535
Tax Asset		267	10
Deferred tax asset	8	137	394
Intangible assets		407	327
Right-of-use assets	9	5,511	5,328
Property and equipment	10	2,785	2,880
Total assets		**110,235**	**97,170**
Liabilities			
Subordinated borrowings and other borrowed funds	11	84,214	70,146
Lease liabilities	9	5,348	5,941
Other liabilities	12	719	790
Total liabilities		**90,281**	**76,877**
Equity			
Share capital	13	2,255	2,250
Share premium	13	1,136	1,117
Preference shares	13	7,464	7,347
Retained earnings	13	9,099	9,579
Total equity		**19,954**	**20,293**
Total liabilities and equity		**110,235**	**97,170**

The financial statements for the year ended 31 December 2022 were approved on behalf of the management on 15 June 2023 by:

General Director Gia Petriashvili

Financial Director Tatia Jajanashvili

The notes on pages 10-43 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

(In thousands of Georgian Lari)

	Note	2022	2021
Interest income	14	22,684	20,123
Interest expense	14	(8,273)	(7,270)
Net interest income		**14,411**	**12,853**
Fee and commission income		2,268	1,923
Net foreign exchange gain		4,821	1,356
Net loss from trading in foreign currency		(8,658)	(3,515)
Operating income		**12,842**	**12,617**
Impairment losses on debt financial assets	6	(853)	(458)
Personnel expenses		(6,947)	(5,836)
Depreciation and amortisation		(1,726)	(1,428)
Other operating expenses	15	(2,308)	(1,960)
Profit before income tax		**1,008**	**2,935**
Income tax expense	8	(351)	(350)
Total comprehensive income		**657**	**2,585**

The notes on pages 10-43 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

(In thousands of Georgian Lari)

	Share capital	Share premium	Preference shares	Retained earnings	Total
At 31 December 2020	**2,225**	**996**	**7,347**	**6,994**	**17,562**
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	25	121	-	-	**146**
	25	**121**	**-**	**-**	**146**
Total comprehensive income for the year					
Profit for the year	-	-	-	2,585	**2,585**
	-	-	-	**2,585**	**2,585**
At 31 December 2021	**2,250**	**1,117**	**7,347**	**9,579**	**20,293**
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	5	19	-	-	**24**
Issue of preference shares	-	-	117	(117)	**-**
	5	**19**	**117**	**(117)**	**24**
Total comprehensive income for the year					
Profit for the year	-	-	-	657	**657**
Dividends declared	-	-	-	(1,020)	**(1,020)**
	-	-	-	**(363)**	**(363)**
At 31 December 2022	**2,255**	**1,136**	**7,464**	**9,099**	**19,954**

The notes on pages 10-43 form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2022

(In thousands of Georgian Lari)

	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**1,008**	**2,935**
Adjustments for:			
Impairment losses on debt financial assets	6	853	458
Net change in interest accruals		(500)	179
Rent Concessions		-	(6)
Modification of contractual cash flows of financial assets		(180)	(461)
Depreciation and amortisation		1,726	1,428
Bonus and other accruals		409	460
Net gain from sale of repossessed property		113	(27)
Impairment of repossessed property		123	-
Net foreign exchange gain		(4,821)	(1,356)
Net gain from sale of property and equipment		(248)	-
Cash flows from operating activities before changes in operating assets and liabilities		**(1,517)**	**3,610**
Changes in operating assets and liabilities:			
Loans to customers		(18,243)	(5,985)
Other assets		(2,802)	(35)
Tax assets		(257)	-
Other liabilities		(441)	(428)
Cash outflow from operating activities before interest and taxation		**(23,260)**	**(2,838)**
Income tax paid		(94)	(350)
Interest paid on lease liabilities		(470)	-
Net cash outflow from operating activities		**(23,824)**	**(3,188)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment		(786)	(881)
Proceeds from sale of property and equipment		593	-
Purchases of intangible assets		(179)	(184)
Net cash outflow from investing activities		**(372)**	**(1,065)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Receipts of borrowed funds	11	111,094	128,588
Repayment of borrowed funds	11	(91,860)	(112,141)
Proceeds from issuance of ordinary shares		24	146
Lease liabilities paid		(949)	(830)
Dividends paid		(1,020)	-
Net cash inflow from financing activities		**17,289**	**15,763**
Net (decrease)/increase in cash and cash equivalents		**(6,907)**	**11,510**
Cash and cash equivalents at the beginning of the period	5	13,879	2,673
Effect of changes in exchange rates on cash and cash equivalents		(194)	(304)
Cash and cash equivalents at the end of the year	5	**6,778**	**13,879**

Interest received by the Organisation during the year ended 31 December 2022 and 2021 amounted to GEL20,940 thousand and GEL18,371, respectively.

Interest paid by the Organisation during the year ended 31 December 2022 and 2021 amounted to GEL8,572 thousand and GEL6,575 thousand, respectively.

The notes on pages 10-43 form an integral part of these financial statements.

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 2022 and 2021. Detailed information is disclosed in Note 13.

The Organisation has 17 branches. The Organisation's head office is located at 68 Queen Ketevan Avenue, Tbilisi, Georgia. Director of the Organisation is Gia Petriashvili.

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 19.

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

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 shareholders have the intention to further develop the business of the Organisation in Georgia. The management believes that the going concern assumption is appropriate for the Organisation.

2. BASIS OF PREPARATION (CONTINUED)

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

a) New standards, interpretations and amendments adopted from 1 January 2022

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); and
- References to Conceptual Framework (Amendments to IFRS 3).

These amendments to various IFRS standards are mandatorily effective for reporting periods beginning on or after 1 January 2022. Neither of interpretations and amendments have material effect, on the Organisation's financial statements for the year ended 31 December 2022.

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 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- IFRS 17 Insurance Contracts

The following amendments are effective for the period beginning 1 January 2024:

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback)
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current)
- IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants)

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

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

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 Expected credit losses 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.

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 taxation is 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 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.

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 6.

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.

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

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

	31 December 2022	31 December 2021
Cash and cash equivalents (excluding cash on hand)	3,739	10,985
Loans to customers	90,241	72,817
Other assets	3,352	422
	97,332	**84,224**

LIQUIDITY RISK

Liquidity risk is the risk that the Organisation will encounter difficulty in meeting its financial obligations as they fall due. 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.

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 liabilities on the basis of their earliest possible contractual maturity:

At 31 December 2022	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Non-derivative financial liabilities					
Other borrowed funds	1,676	4,953	83,330	-	**89,959**
Subordinated borrowings	95	310	1,646	5,227	**7,278**
Lease liabilities	371	1,044	3,783	1,337	**6,535**
Other financial liabilities	616	-	-	-	**616**
	2,758	**6,307**	**88,759**	**6,564**	**104,388**

At 31 December 2021	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Non-derivative financial liabilities					
Other borrowed funds	4,055	35,935	29,909	-	**69,899**
Subordinated borrowings	117	381	6,417	-	**6,915**
Lease liabilities	361	1,103	4,373	1,415	**7,252**
Other financial liabilities	272	377	-	-	**649**
	4,805	**37,796**	**40,699**	**1,415**	**84,715**

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 2022 is presented in the tables below:

Financial assets	GEL	USD	EUR	Other Currencies
Cash and cash equivalents	4,706	911	1,019	142
Loans to customers	88,815	1,426	-	-
Other financial assets	329	3,090	27	6
	93,850	**5,427**	**1,046**	**148**
Financial liabilities				
Other borrowed funds	40,843	38,477	21	-
Subordinated borrowings	-	4,873	-	-
Lease liabilities	315	5,033	-	-
Other financial liabilities	567	49	-	-
	41,725	**48,432**	**21**	**-**
Open balance sheet position	**52,125**	**(43,005)**	**1,025**	**148**
The effect of derivatives held for risk management	**(84,901)**	**87,911**	**-**	**-**
Net open balance sheet position	**(32,776)**	**44,906**	**1,025**	**148**

The Organisation's exposure to foreign currency exchange rate risk as at 31 December 2021 is presented in the tables below:

Financial assets	GEL	USD	EUR	Other Currencies
Cash and cash equivalents	1,886	11,094	772	127
Loans to customers	70,165	2,652	-	-
Other financial assets	112	295	15	-
	72,163	**14,041**	**787**	**127**
Financial liabilities				
Other borrowed funds	34,040	30,542	83	-
Subordinated borrowings	-	5,481	-	-
Lease liabilities	221	5,720	-	-
Other financial liabilities	257	386	6	-
	34,518	**42,129**	**89**	**-**
Open balance sheet position	**37,645**	**(28,088)**	**698**	**127**
The effect of derivatives held for risk management	**(21,301)**	**21,322**	**-**	**-**
Net open balance sheet position	**16,344**	**(6,766)**	**698**	**127**

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 2022 and 2021 can be presented as follows:

	31 December 2022			31 December 2021		
	(GEL / USD)	(GEL / EUR)	(GEL / Other Currencies)	(GEL / USD)	(GEL / EUR)	(GEL / Other Currencies)
20% increase	8,981	205	30	(1,353)	140	25
20% decrease	(8,981)	(205)	(30)	1,353	(140)	(25)

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 2022 and 2021:

	31 December 2022	31 December 2021
Total interest-bearing financial assets	93,980	83,802
Total interest-bearing financial liabilities	(89,562)	(76,087)
	4,418	**7,715**

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; and
- 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 16.

5. CASH AND CASH EQUIVALENTS

	31 December 2022	31 December 2021
Cash on hand	3,039	2,894
Cash at Bank	3,739	10,985
	6,778	**13,879**

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

6. LOANS TO CUSTOMERS

	31 December 2022	31 December 2021
Services	33,962	32,861
Consumption*	28,255	16,290
Trade	11,747	13,300
Farming/agro-activities	10,901	8,282
Housing*	5,827	1,783
Production/construction	2,718	2,541
	93,410	**75,057**
Expected credit losses	(3,169)	(2,240)
Total loans to customers	**90,241**	**72,817**

*Consumption loans are intended to cover personal purchases and other consumer liabilities. Housing loans are loans issued for the purpose of purchase, repair and to arrange real estate.

6. LOANS TO CUSTOMERS (CONTINUED)

The following table provides information on the credit quality of loans to customers as at 31 December 2022:

Loans to customers	Stage 1	Stage 2	Stage 3	Total
Services				
Not overdue	30,855	325	-	**31,180**
Overdue less than 30 days	663	-	-	**663**
31 to 90 days overdue	-	595	-	**595**
91 to 180 days overdue	-	-	186	**186**
More than 180 days overdue	-	-	1,338	**1,338**
Total Services	**31,518**	**920**	**1,524**	**33,962**
Expected credit losses	(458)	(136)	(677)	**(1,271)**
Carrying amount	**31,060**	**784**	**847**	**32,691**
Consumption				
Not overdue	26,594	305	-	**26,899**
Overdue less than 30 days	363	-	-	**363**
31 to 90 days overdue	-	176	-	**176**
91 to 180 days overdue	-	-	185	**185**
More than 180 days overdue	-	-	632	**632**
Total Consumption	**26,957**	**481**	**817**	**28,255**
Expected credit losses	(420)	(66)	(424)	**(910)**
Carrying amount	**26,537**	**415**	**393**	**27,345**
Trade				
Not overdue	10,194	586	-	**10,780**
Overdue less than 30 days	85	1	-	**86**
31 to 90 days overdue	-	187	-	**187**
91 to 180 days overdue	-	-	83	**83**
More than 180 days overdue	-	-	611	**611**
Total Trade	**10,279**	**774**	**694**	**11,747**
Expected credit losses	(124)	(46)	(278)	**(448)**
Carrying amount	**10,155**	**728**	**416**	**11,299**
Farming/agro-activities				
Not overdue	9,796	38	-	**9,834**
Overdue less than 30 days	384	18	-	**402**
31 to 90 days overdue	-	211	-	**211**
91 to 180 days overdue	-	-	53	**53**
More than 180 days overdue	-	-	401	**401**
Total Farming/agro-activities	**10,180**	**267**	**454**	**10,901**
Expected credit losses	(170)	(37)	(201)	**(408)**
Carrying amount	**10,010**	**230**	**253**	**10,493**
Production/construction				
Not overdue	2,565	-	-	**2,565**
Overdue less than 30 days	5	-	-	**5**
31 to 90 days overdue	-	61	-	**61**
91 to 180 days overdue	-	-	-	**-**
More than 180 days overdue	-	-	87	**87**
Total Production/construction	**2,570**	**61**	**87**	**2,718**
Expected credit losses	(31)	(13)	(40)	**(84)**
Carrying amount	**2,539**	**48**	**47**	**2,634**
Housing				
Not overdue	5,568	185	-	**5,753**
Overdue less than 30 days	28	-	-	**28**
More than 180 days overdue	-	-	46	**46**
Total Housing	**5,596**	**185**	**46**	**5,827**
Expected credit losses	(30)	(2)	(16)	**(48)**
Carrying amount	**5,566**	**183**	**30**	**5,779**

6. LOANS TO CUSTOMERS (CONTINUED)

The following table provides information on the credit quality of loans to customers as at 31 December 2021:

Loans to customers	Stage 1	Stage 2	Stage 3	Total
Services				
Not overdue	30,331	549	-	**30,880**
Overdue less than 30 days	321	12	-	**333**
31 to 90 days overdue	-	182	-	**182**
91 to 180 days overdue	-	-	538	**538**
More than 180 days overdue	-	-	928	**928**
Total Services	**30,652**	**743**	**1,466**	**32,861**
Expected credit losses	(335)	(51)	(588)	**(974)**
Carrying amount	**30,317**	**692**	**878**	**31,887**
Consumption				
Not overdue	14,970	488	-	**15,458**
Overdue less than 30 days	227	5	-	**232**
31 to 90 days overdue	-	103	-	**103**
91 to 180 days overdue	-	-	148	**148**
More than 180 days overdue	-	-	349	**349**
Total Consumption	**15,197**	**596**	**497**	**16,290**
Expected credit losses	(229)	(31)	(259)	**(519)**
Carrying amount	**14,968**	**565**	**238**	**15,771**
Trade				
Not overdue	11,691	636	-	**12,327**
Overdue less than 30 days	216	58	-	**274**
31 to 90 days overdue	-	46	-	**46**
91 to 180 days overdue	-	-	70	**70**
More than 180 days overdue	-	-	583	**583**
Total Trade	**11,907**	**740**	**653**	**13,300**
Expected credit losses	(117)	(23)	(259)	**(399)**
Carrying amount	**11,790**	**717**	**394**	**12,901**
Farming/agro-activities				
Not overdue	7,600	25	-	**7,625**
Overdue less than 30 days	178	21	-	**199**
31 to 90 days overdue	-	213	-	**213**
91 to 180 days overdue	-	-	104	**104**
More than 180 days overdue	-	-	141	**141**
Total Farming/agro-activities	**7,778**	**259**	**245**	**8,282**
Expected credit losses	(102)	(46)	(110)	**(258)**
Carrying amount	**7,676**	**213**	**135**	**8,024**
Production/construction				
Not overdue	2,410	27	-	**2,437**
Overdue less than 30 days	23	-	-	**23**
31 to 90 days overdue	-	4	-	**4**
91 to 180 days overdue	-	-	4	**4**
More than 180 days overdue	-	-	73	**73**
Total Production/construction	**2,433**	**31**	**77**	**2,541**
Expected credit losses	(22)	(1)	(37)	**(60)**
Carrying amount	**2,411**	**30**	**40**	**2,481**
Housing				
Not overdue	1,488	240	-	**1,728**
Overdue less than 30 days	6	-	-	**6**
More than 180 days overdue	-	-	49	**49**
Total Housing	**1,494**	**240**	**49**	**1,783**
Expected credit losses	(10)	(4)	(16)	**(30)**
Carrying amount	**1,484**	**236**	**33**	**1,753**

6. 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).

Weighted average loan-to-value ratio for loans collateralized with real estate at the end of 2022 was 38% (2021: 37%) and collateralized by vehicles was 51% (2021: 52%).

Loans collateralized by precious metals are collateralized by underlying precious metals. Weighted average loan-to-value ratio for loans collateralized by precious metals at the end of 2022 was 93% (2021: 88%). 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 2022	Real estate	Vehicles	Precious metals	No collateral	Total
Services	24,025	8,593	17	56	**32,691**
Consumption	9,619	17,704	22	-	**27,345**
Trade	8,729	2,509	-	61	**11,299**
Farming/agro-activities	8,374	2,017	-	102	**10,493**
Production/construction	2,328	290	-	16	**2,634**
Housing	5,598	181	-	-	**5,779**
	58,673	**31,294**	**39**	**235**	**90,241**

At 31 December 2021	Real estate	Vehicles	Precious metals	No collateral	Total
Services	21,309	10,515	19	44	**31,887**
Consumption	4,795	10,924	48	4	**15,771**
Trade	10,447	2,442	-	12	**12,901**
Farming/agro-activities	5,438	2,546	-	40	**8,024**
Production/construction	2,141	337	-	3	**2,481**
Housing	1,651	102	-	-	**1,753**
	45,781	**26,866**	**67**	**103**	**72,817**

Impact of COVID-19

Restrictions related to the COVID-19 have different impact on different business sectors. Due to the lockdown and sharp decline in performance of vulnerable sectors, dramatic increase of financial risks, especially credit risks, is almost inevitable.

In response to COVID-19 outbreak the Organisation joined Commercial Banks initiative to grant one to three-month grace period to its borrowers in April, May and June 2020. 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.

During 2021 the Organisation was continuing operations in regular and usual manner and there were no interruptions caused by pandemic. Management closely monitors the development of the situation on the world and Georgian markets in order to minimize negative consequences and respond to mitigate the impact of such events and circumstances as they occur.

6. LOANS TO CUSTOMERS (CONTINUED)

The following table includes summary information for financial assets whose cash flows were modified during the 2020 period as of the Organisation's restructuring activities and their respective effect on the Organisation's financial position as at 31 December 2022:

	Amortized cost before modification as at 31.12.2022	Modification Balance 2022	Modification gain 2022	Modification Balance 2021	Modification gain 2021
Services	2,589	49	71	120	179
Trade	2,169	42	42	84	111
Consumption	1,783	36	46	81	104
Farming/agro-activities	255	6	6	12	21
Production/construction	352	7	7	14	15
Housing	414	9	8	18	31
	7,562	**149**	**180**	**329**	**461**

The following table shows reconciliations from the opening to the closing balances of the expected credit losses of loans to customers as at 31 December 2022:

Expected credit losses	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At the beginning of the year	**815**	**156**	**1,269**	**2,240**
Transfer to Stage 1	11	(11)	-	-
Transfer to Stage 2	(14)	14	-	-
Transfer to Stage 3	(25)	(49)	74	-
Net remeasurement of loss allowance	(45)	78	279	**312**
New financial assets originated	1,411	-	-	**1,411**
Transfer to Stage 2	(169)	169	-	-
Transfer to Stage 3	(272)	-	272	-
Repaid loans	(479)	(57)	(193)	**(729)**
Write-Offs	-	-	(65)	**(65)**
At the end of the year	**1,233**	**300**	**1,636**	**3,169**

The following table shows reconciliations from the opening to the closing balances of the expected credit losses of loans to customers as at 31 December 2021:

Expected credit losses	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At the beginning of the year	**697**	**289**	**740**	**1,726**
Transfer to Stage 1	173	(173)	-	-
Transfer to Stage 2	(21)	21	-	-
Transfer to Stage 3	(24)	(73)	97	-
Net remeasurement of Expected credit losses	90	34	197	**321**
New financial assets originated	949	-	-	**949**
Transfer to Stage 2	(83)	83	-	-
Transfer to Stage 3	(239)	-	239	-
Repaid loans	(727)	(25)	(4)	**(756)**
At the end of the year	**815**	**156**	**1,269**	**2,240**

6. LOANS TO CUSTOMERS (CONTINUED)

Respective movements in the gross carrying amounts of loans to customers for the year ended 31 December 2022 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost				
At the beginning of the year	**69,461**	**2,609**	**2,987**	**75,057**
Transfer to Stage 1	239	(239)	-	-
Transfer to Stage 2	(1,039)	1,039	-	-
Transfer to Stage 3	(1,038)	(266)	1,304	-
New financial assets originated	111,626	-	-	**111,626**
Transfer to Stage 2	(618)	618	-	-
Transfer to Stage 3	(512)	-	512	-
Net changes in interest accruals	10	55	52	**117**
Modification of contractual cash flows of financial assets	155	25	-	**180**
Repaid loans	(91,406)	(1,483)	(353)	**(93,242)**
Write-offs	-	-	(65)	**(65)**
Foreign exchange and other movements	220	331	(814)	**(263)**
At the end of the year	**87,098**	**2,689**	**3,623**	**93,410**

Stage 2 loans include loans restructured according to the Organisation's standard procedure with gross amount of GEL1,590 thousand and with ECL of GEL27 thousand.

Stage 3 loans include loans restructured according to the Organisation's standard procedure with gross amount of GEL11 thousand and with ECL of GEL6 thousand.

Respective movements in the gross carrying amounts of loans to customers for the year ended 31 December 2021 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost				
At the beginning of the year	**63,553**	**3,363**	**1,668**	**68,584**
Transfer to Stage 1	883	(883)	-	-
Transfer to Stage 2	(2,043)	2,043	-	-
Transfer to Stage 3	(1,146)	(413)	1,559	-
New financial assets originated	91,724	-	-	**91,724**
Transfer to Stage 2	(351)	351	-	-
Transfer to Stage 3	(439)	-	439	-
Net changes in interest accruals	(80)	38	190	**148**
Modification of contractual cash flows of financial assets	401	(6)	66	**461**
Repaid loans	(83,281)	(1,909)	(309)	**(85,499)**
Write-offs	-	-	(184)	**(184)**
Foreign exchange and other movements	240	25	(442)	**(177)**
At the end of the year	**69,461**	**2,609**	**2,987**	**75,057**

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.

6. LOANS TO CUSTOMERS (CONTINUED)

Movements in the loan impairment allowance are as follows:

	2022	2021
Net change of expected credit losses	(482)	(435)
New financial assets originated	1,411	949
Total recognised expected credit losses for the period	**929**	**514**
Write-offs	65	184
Recoveries of amounts previously written-off loans	(141)	(240)
Total impairment losses on debt financial assets	**853**	**458**

Loans to customers are presented by purpose, but the Organization defines business lending by loans issued for business purposes and/or loans whose repayment source is income from business activities. For 31 December 2022, gross loan portfolio is given in the table below:

	By Purpose	**By purpose and source of Income**
Services	33,962	37,362
Consumption*	28,255	22,966
Trade	11,747	12,718
Farming/agro-activities	10,901	11,813
Housing*	5,827	5,840
Production/construction	2,718	2,711
	93,410	**93,410**

7. OTHER ASSETS

	31 December 2022	31 December 2021
Financial assets at fair value though profit or loss	3,038	59
Repossessed property*	540	869
Cash collateral pledged under the credit line agreement	314	287
Prepayments	83	114
Other	134	206
	4,109	**1,535**

Movements in the repossessed property for the year ended 31 December 2022 and 2021 are as follows:

	2022	2021
At the beginning of the year	869	1,173
Additions	356	344
Disposal	(562)	(648)
Impairement loss	(123)	-
At the end of the year	**540**	**869**

*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.

7. OTHER ASSETS (CONTINUED)

Foreign Currency Forward Contracts

Foreign Currency Forward Contracts are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts. In a foreign currency forward, the Organisation pays a specified amount in one currency and receives a specified amount in another currency. Currency forwards are gross-settled.

The table below summarizes the undiscounted contractual amounts outstanding at 31 December 2022 and 2021 with remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts are recognized in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount	
	31 December 2022	31 December 2021
Sell GEL to Buy USD		
Less than 3 months	63,077	21,128
Between 3 and 12 months	24,834	100
	87,911	**21,228**

8. DEFERRED TAX ASSET AND LIABILITY

	31 December 2020	Recognised in profit or loss	31 December 2021	Recognised in Statement of comprehensive income	31 December 2022
Loans to customers	**277**	36	**313**	(5)	308
Right-of-use assets	**(608)**	(191)	**(799)**	(303)	(1,102)
Property and equipment	**(186)**	(31)	**(217)**	(154)	(371)
Intangible assets	**25**	(5)	**20**	2	22
Subordinated borrowings and other borrowed funds	**82**	28	**110**	18	128
Lease liabilities	**742**	149	**891**	179	1,070
Other liabilities	**24**	52	**76**	6	82
	356	**38**	**394**	**(257)**	**137**

Income tax expense for the years ended 31 December 2022 and 2021 comprises the following:

	2022	2021
Current income tax	(94)	(388)
Effect of temporary differences	(257)	38
	(351)	**(350)**

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

	2022	2021
Profit before income tax	**1,008**	**2,935**
Applicable tax rate	20%	15%
Theoretical Income tax benefit	**(202)**	**(440)**
Effect of permanent differences	(149)	90
	(351)	**(350)**

The tax effect of the movements in the temporary differences is detailed below and is recorded at the rate of 15% for Allowances for losses on loans to customers and at the rate of 20% for Other temporary differences (2021:15%).

9. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Organisation's lease agreements, for which right of use assets are recognised, includes leases of the head office and branches. Lease payments for these spaces are fixed over the lease term and are denominated in USD and GEL. The incremental borrowing rates for 2022 and 2021 years are in range of 6.5-7.5% for leases denominated in USD and 12.5-15% for leases denominated in GEL.

Lease liabilities distribution by currency is disclosed in Note 4.

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

	2022	2021
At the beginning of the year	**5,328**	**4,050**
New lease contracts	247	2,163
Modification	1,026	44
Amortisation	(1,090)	(929)
At the end of the year	**5,511**	**5,328**

Lease liabilities can be presented as follows:

	2022	2021
At the beginning of the year	**5,941**	**4,947**
New lease contracts	247	2,163
Interest expense	470	402
Modification	971	38
Lease payments	(1,419)	(1,232)
Foreign exchange movements	(862)	(377)
At the end of the year	**5,348**	**5,941**

IBR was determined based on observable market data for a similar sector.

10. PROPERTY AND EQUIPMENT

Historical cost	Land and buildings	Furniture and equipment	Leasehold improvements	Total
As at 31 December 2020	**1,184**	**1,608**	**651**	**3,443**
Additions	26	473	382	**881**
As at 31 December 2021	**1,210**	**2,081**	**1,033**	**4,324**
Additions	-	380	406	**786**
Write-offs	(339)	-	(27)	**(366)**
As at 31 December 2022	**871**	**2,461**	**1,412**	**4,744**
Accumulated depreciation				
As at 31 December 2020	**(58)**	**(757)**	**(224)**	**(1,039)**
Depreciation for the year	(21)	(281)	(103)	**(405)**
As at 31 December 2021	**(79)**	**(1,038)**	**(327)**	**(1,444)**
Depreciation for the year	(15)	(355)	(166)	**(536)**
Write-offs	18	-	3	**21**
As at 31 December 2022	**(76)**	**(1,393)**	**(490)**	**(1,959)**
Carrying amount				
As at 31 December 2021	**1,131**	**1,043**	**706**	**2,880**
As at 31 December 2022	**794**	**1,069**	**922**	**2,785**

11. SUBORDINATED BORROWINGS AND OTHER BORROWED FUNDS

	31 December 2022	31 December 2021
Principal	83,347	69,247
Interest Payable	867	899
	84,214	**70,146**

Details regarding subordinated borrowings and other borrowed funds are given in the tables below:

	Currency	Nominal interest rate	Year of maturity	31 December 2022
Secured loans				
From local financial institutions	GEL	12%-16%	2022-2024	21,716
Unsecured loans				
From international financial institutions	USD	6%-8%	2023-2025	31,277
From international financial institutions	GEL	14%	2023	3,480
Subordinated loans from related parties	USD	8%-10%	2028-2029	4,873
From related parties	USD	4%-11%	2023-2024	1,866
Other legal entities	USD	4%-6%	2023-2023	545
Other legal entities	GEL	13%-16%	2023-2024	252
Bonds	GEL	16%	2024	14,986
From individuals	USD	2%-7%	2023-2024	4,789
From individuals	GEL	14%-15%	2023-2024	409
From individuals	GEL	3%	2022-2023	21
				84,214

	Currency	Nominal interest rate	Year of maturity	31 December 2021
Secured loans				
From local financial institutions	GEL	12%-16%	2022-2023	30,448
Unsecured loans				
From international financial institutions	USD	6%-9%	2022-2023	24,939
From international financial institutions	GEL	14%	2023	3,480
Subordinated loans from shareholders	USD	9%-10%	2024-2025	5,481
From related parties	USD	3%-11%	2022-2024	1,956
From individuals	USD	4%-8%	2022-2023	3,647
From individuals	GEL	14%	2022	112
From individuals	EUR	2%-4%	2022	83
				70,146

On December 13, 2022, the Organization issued bonds worth GEL15,000 GEL, the interest rate of which was determined from its nominal value, and amounts to 450 basis points (spread) plus TIBR3M, including taxes established by law. Interest accrual will take place on a 365 day per year basis. The accrued interest will be paid four times a year on March 13, June 13, September 13 and December 13.

Borrowings received from local financial institutions for 2022 and 2021 were secured with the Organisation's loan portfolio with amount of GEL14,660 and GEL22,780, cash collaterals GEL314 and GEL287, respectively. Borrowings secured with Organisation's real estate with carrying amount equaled GEL750 thousand for 2021.

11. SUBORDINATED BORROWINGS AND OTHER BORROWED FUNDS (CONTINUED)

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:

	2022		2021	
	Subordinated borrowings	Other borrowed funds	Subordinated borrowings	Other borrowed funds
At the beginning of the year	**5,481**	**64,665**	**5,801**	**49,127**
Repayment	-	(91,860)	-	(112,141)
Proceeds	104	110,990	-	128,588
Interest paid	(496)	(8,076)	(536)	(6,089)
Net Cash flows:				
Interest expense	465	7,338	531	6,337
The effect of changes in foreign exchange rates	(679)	(3,718)	(315)	(1,157)
At the end of the year	**4,875**	**79,339**	**5,481**	**64,665**

12. OTHER LIABILITIES

	31 December 2022	31 December 2021
Salary payables	352	423
Payables from received services	132	193
Financial liabilities at fair value though profit or loss	123	-
Other	112	174
	719	**790**

13. SHARE CAPITAL AND RESERVES

As at 31 December 2022 and 2021 the following shareholders owned shares of the Organisation and comprise the Shareholder Group:

	31 December 2022			
Shareholder	Percentage of total ordinary shares	Number of ordinary shares	Number of preference shares (A Class)	Number of preference shares (B Class)
Gia Petriashvili	31.76%	716,000	27,000	100
Otar Rukhadze	14.42%	325,000	108,000	400
Tengiz Maziashvili	9.29%	209,500	33,750	125
Taras Nizharadze	8.25%	186,000	99,900	370
Murman Ambroladze	7.98%	180,000	13,500	50
Goderdzi Meladze	6.65%	150,000	40,500	150
Giorgi Gotoshia	6.65%	150,000	13,500	50
Giorgi Vachnadze	5.48%	123,500	14,850	55
JB LLC	2.66%	60,000	27,000	100
Eter Chachibaia	2.00%	45,000	-	-
Giorgi Ghvaladze	1.95%	44,000	-	-
Tatia Jajanashvili	1.49%	33,500	-	-
Nino Devdariani	1.42%	32,000	-	-
	100.00%	**2,254,500**	**378,000**	**1,400**

13. SHARE CAPITAL AND RESERVES (CONTINUED)

	31 December 2021		
Shareholder	Percentage of total ordinary shares	Number of ordinary shares	Number of preference shares (B Class)
Gia Petriashvili	31.82%	716,000	200
Otar Rukhadze	14.44%	325,000	800
Tengiz Maziashvili	9.31%	209,500	250
Taras Nizharadze	8.27%	186,000	740
Murman Ambroladze	8.00%	180,000	100
Goderdzi Meladze	6.67%	150,000	300
Giorgi Gotoshia	6.67%	150,000	100
Giorgi Vachnadze	5.49%	123,500	110
JB LLC	2.67%	60,000	200
Eter Chachibaia	2.00%	45,000	-
Giorgi Ghvaladze	1.96%	44,000	-
Tatia Jajanashvili	1.49%	33,500	-
Nino Devdariani	1.22%	27,500	-
	100%	**2,250,000**	**2,800**

Issued capital

The authorised, issued and outstanding share capital comprises 2,254,000 ordinary shares (2021: 2,225,000). All shares have a nominal value of GEL 1. During 2022 4,500 ordinary shares were issued (2020: 25,000).

Difference between nominal value and market price is recognized in share premium. As at 31 December 2021 share premium comprises GEL 1,136 thousand (As at 31 December 2021: GEL 1,117 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 USD1,000. In 2022, According to minutes of the meeting #14, 50% of class B preference shares were converted into class A preference shares and the change was reflected in register of shares of the Organisation in January 2023. Nominal value of A class preference shares is GEL10. 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.

Dividend payments on class A preference shares will be made at a variable rate, which consists of two components: the monetary policy rate approved by the National Bank of Georgia ("Refinancing rate") and rate approved by general meeting of shareholders, which is 6.5%. Dividend payment on class B preferred shares will be made at a fixed rate of 10%. 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. In 2022 the Organisation declared preference dividends at amount of GEL1,020. In 2021 year the Organisation did not declare dividends.

14. NET INTEREST INCOME

Interest income is arising from:	2022	2021
Loans to customers	22,420	19,578
Modification gain of contractual cash flows of financial assets	180	461
Placements with banks	84	84
	22,684	**20,123**

Interest expense is arising from:	2022	2021
Borrowings from financial institutions	(4,881)	(3,967)
Borrowings from international financial institutions	(1,498)	(1,521)
Borrowings from individuals	(705)	(885)
Leases	(470)	(402)
Bonds	(116)	-
Other borrowings	(603)	(495)
	(8,273)	**(7,270)**

15. OTHER OPERATING EXPENSES

	2022	2021
Advertising and marketing	(456)	(609)
Loss from sale and impairment of repossessed properties	(239)	-
Utilities	(208)	(165)
Office supplies	(203)	(154)
Consulting*	(168)	(167)
Application inspection	(165)	(139)
Tax expense other than income tax	(132)	(29)
Communication	(129)	(118)
Bank charges	(93)	(57)
Security	(79)	(61)
Transportation	(68)	(67)
Rent	(45)	(101)
Business trips	(55)	(35)
Other	(268)	(258)
	(2,308)	**(1,960)**

*For 2022 and 2021, professional fees paid to the audit firm for the provision of audit and other professional services comprised GEL 48 and GEL 53, respectively.

16. 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.

16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 2022 and 31 December 2021.

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 2022 and 2021 the Organisation has issued financial guarantee of GEL 2,200 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 (6 years to maturity). 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. Based on management's assessment, there is a remote chance of default. As at 31 December 2022 and 2021 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.

REGULATIONS OF NATIONAL BANK OF GEORGIA

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 Organization has to hold minimum level of CAR at least 18%.

The below table discloses the compliance with NBG CAR ratio as at 31 December 2022 and 31 December 2021:

	31 December 2022	**31 December 2021**
Share capital	2,255	2,250
Share premium	1,136	1,117
Preference shares	7,464	7,347
Retained earnings	9,099	9,579
Eligible subordinated debt	4,873	5,481
Regulatory capital before reductions	**24,827**	**25,774**
Less intangible assets	(407)	(327)
Regulatory capital	**24,420**	**25,447**

16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

	31 December 2022	31 December 2021
Total assets before reduction	110,235	97,170
Less intangible assets	(407)	(327)
Total assets after reduction	**109,828**	**96,843**

	31 December 2022	31 December 2021
Capital adequacy ratio	**22%**	**26%**

17. 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 2022:

Financial statement caption	Shareholder	Other related parties	Key management personnel
Subordinated borrowings	4,873	-	-
Other borrowed funds	1,183	683	-
Lease Liabilities	-	1,119	-
Other liabilities	1	-	49
Short-term employee benefits	-	-	(972)
Net gain from trading in foreign currency	-	2,827	-
Interest expense	(524)	(289)	-

Related party balances and transactions as and for the year ended 31 December 2021:

Financial statement caption	Shareholder	Other related parties	Key management personnel
Subordinated borrowings	5,481	-	-
Other borrowed funds	1,308	648	-
Other liabilities	-	-	326
Short-term employee benefits	-	-	(1,246)
Interest expense	(630)	(33)	-

18. EVENTS AFTER REPORTING PERIOD

Non-Adjusting:

Dividends

On 23 January 2023 according to the decision of supervisory board the Organisation declared preference dividends of GEL 220.

Preference share repurchase

According to minutes of shareholders meeting, on 22 February 2023 Organisation repurchased 180 B class preference shares from Taras Nizharadze with nominal value of GEL475 and it was converted into subordinated loan from shareholder.

19. 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.

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 all of Organisation’s 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.

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

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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:

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stage 1: The Organisation recognizes a credit Expected credit losses 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 Expected credit losses 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 Expected credit losses 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

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.

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Definition of default

The Organisation considers loan to be in default if any of the following criteria are met:

- Loans being past due for more than 90 days; Death of the borrower;
- A default, initiation of bankruptcy proceedings (for business borrowers); 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
- 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.

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 Expected credit losses 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.

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

19. 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 borrowings and other short-term monetary liabilities within "Other financial liabilities" category. All of Organisation's derivative financial liabilities are measured at FVTPL.

Other financial liabilities include the following items:.

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.

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:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimated fair values of all financial instruments as at 31 December 2022 and 31 December 2021 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. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a 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 Expected credit losses). 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.

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.

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

19. 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 standalone 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. Organisations lease terms contractually are determined to be 5 to 10 years.

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).

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.

Contract terms are negotiated on an individual basis with lessors; Results of these negotiations have material effect on financial statements as the lease terms, currencies and payment methods (fixed or variable) are determined.

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 of 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.

In December 2022 the Parliament of Georgia adopted changes which will come into effect on 1 January 2023. Income tax on companies of Georgia's financial sector will be set at 20 percent, with taxation of MFOs and other entities no longer set to be switched to the Estonian tax model.

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.

PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

All property, equipment and intangible assets are stated at historical cost less depreciation (amortisation) and recognized impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

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:

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	Useful life (years)
Buildings	30 - 40
Furniture and equipment	3 – 7

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Leasehold improvements are depreciated according to lease agreement. The intangible assets with definite useful lives are amortised on a straight-line basis over expected useful lives.

IMPAIRMENT OF NON-FINANCIAL ASSETS OTHER THAN INVENTORIES

Non-financial assets other than inventories are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised in statement of comprehensive income for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

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.

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 2022 and 2021:

	USD / GEL	EUR / GEL
Exchange rate as at 31 December 2022	2.7020	2.8844
Exchange rate as at 31 December 2021	3.0976	3.5040

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.