JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

Financial Statements

Together with the Independent Auditor's Report

For the year ended 31 December 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Management of **JSC Microfinance Organization Georgian Credit**

Opinion

We have audited the financial statements of JSC Microfinance Organization Georgian Credit (hereinafter - the Company), which comprise the statement of financial position as at 31 December 2021, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the financial statements which describes that the Company has accumulated losses of GEL4,573,165 at the end of 2021. In addition, in the 1st and 2nd quarters of 2022 the Company breached one of the covenants (cost to income ratio) stipulated in the restructuring agreements with lenders. This event would have enabled the lenders to demand all of their loan receivables at the time of breach, which would cause significant liquidity problems to the Company. However, the Company obtained a waiver on this breach from all lenders in due course. These events and conditions indicate that material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of the Management and Those Charged with Governance for the Financial Statements

Management and those Charged with Governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as they determine 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, the Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

BDO Audit LLC, a Georgian Limited Liability Company (ID 205145403), is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 Company's internal control
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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 number **SARAS-A-720718)**

Engagement Partner

Tbilisi, Georgia

28 June 2022

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

(In GEL

	Note	2021	2020
Interest income	5	6,927,500	8,814,816
Interest expense	5	(4,286,390)	(5,964,577)
Net interest income		**2,641,110**	**2,850,239**
Changes in expected credit losses	12	(890,163)	(2,850,281)
Net interest income (expense) after expected credit losses		**1,750,947**	**(42)**
Fee and commission income	7	308,941	297,736
Other income	8	2,318,142	228,662
Staff costs including salaries and bonuses		(2,863,090)	(2,736,697)
General and administrative expenses	9	(894,523)	(876,233)
Depreciation and amortization	15,16,17	(767,314)	(967,528)
Change in repossessed collaterals, net	13	152,931	216,047
Income (loss) from exchange rate differences, net		343,598	(314,855)
Income (loss) before income tax		**349,632**	**(4,152,910)**
Income tax benefit (expense)	10	(326,180)	3,355
Total comprehensive income (loss) for the year		**23,452**	**(4,149,555)**

Financial Statements for the year ended 31 December 2021 were approved on behalf of the Management on 28 June 2022 by:

Executive Director G. Samadashvili

GEORGIAN CREDIT

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

(In GEL)

	Note	31 December 2021	31 December 2020
Assets			
Cash and cash equivalents	11	407,298	2,727,013
Amounts due from credit institutions	19	-	5,554,207
Loans to customers	12	20,199,683	26,049,138
Other assets	13	6,873,164	5,982,124
Deferred tax asset	14	-	326,180
Intangible assets	15	284,422	330,330
Right of use assets	16	937,426	1,457,836
Property and equipment	17	259,525	339,584
Total assets		**28,961,518**	**42,766,412**
Liabilities and equity			
Liabilities			
Borrowings	18	19,172,428	35,840,434
Subordinated borrowings	18	-	1,759,064
Lease liabilities	16	1,070,491	1,852,042
Other liabilities	19	1,242,159	268,420
Total liabilities		**21,485,078**	**39,719,960**
Equity			
Share capital	20	5,506,503	1,815,568
Share premium	20	5,827,501	5,827,501
Other reserve	20	715,601	-
Accumulated losses		(4,573,165)	(4,596,617)
Total equity		**7,476,440**	**3,046,452**
Total liabilities and equity		**28,961,518**	**42,766,412**

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2021

(In GEL)

	Share capital	Share premium	Other reserve	Accumulated losses	Total
Balance at 31 December 2019	**1,515,568**	**5,527,501**	**-**	**(447,062)**	**6,596,007**
Issue of shares	300,000	300,000	-	-	**600,000**
Total comprehensive loss	-	-	-	(4,149,555)	**(4,149,555)**
Balance at 31 December 2020	**1,815,568**	**5,827,501**	**-**	**(4,596,617)**	**3,046,452**
Issue of shares (Note 18)	3,690,935	-	-	-	**3,690,935**
Benefit from restructuring agreement on borrowings (Note 18)	-	-	715,601	-	**715,601**
Total comprehensive income	-	-	-	23,452	**23,452**
Balance at 31 December 2021	**5,506,503**	**5,827,501**	**715,601**	**(4,573,165)**	**7,476,440**

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

(In GEL)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit (loss) before income tax	**349,632**	**(4,152,910)**
Adjustments for:		
Provision for loan impairment	890,163	2,850,281
Depreciation and amortization	767,314	967,528
Foreign exchange rate differences	(343,598)	314,855
Change in repossessed collaterals, net	(152,931)	(216,047)
Interest income	(6,927,500)	(8,814,816)
Interest expense	4,286,390	5,964,577
Benefit from restructuring agreement	(2,300,078)	-
Cash outflow from operating activities before changes in operating assets and liabilities	**(3,430,608)**	**(3,086,532)**
Decrease/(increase) in operating assets:		
Loans to customers	4,984,249	6,041,586
Other assets	(738,962)	(648,140)
Increase/(decrease) in operating liabilities:		
Financial instruments at fair value through profit or loss	5,554,207	(6,137,374)
Other liabilities	1,070,012	92,793
Cash inflow (outflow) from operating activities before interest and taxation	**7,438,898**	**(3,737,667)**
Interest paid on lease liabilities	(106,257)	(169,634)
Interest paid on borrowings and forward agreements	(3,795,190)	(6,126,724)
Interest received	6,827,256	8,219,871
Net cash inflow (outflow) from operating activities	**10,364,707**	**(1,814,154)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(29,680)	(71,702)
Purchase of intangible assets	(20,295)	(14,589)
Net cash outflow from investing activities	**(49,975)**	**(86,291)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Received borrowings, net	(10,553,432)	3,005,088
Proceeds from share issue	-	151,388
Principal paid on lease liabilities	(501,510)	(663,873)
Net cash inflow (outflow) from financing activities	**(11,054,942)**	**2,492,603**
Net increase/(decrease) in cash and cash equivalents	**(740,210)**	**592,158**
Cash and cash equivalents at the beginning of the period	**2,727,013**	**1,629,671**
Effect of exchange rate fluctuations on the cash and cash equivalents held in foreign currencies	(1,579,505)	505,184
Cash and cash equivalents at the end of the year	**407,298**	**2,727,013**

1. GENERAL INFORMATION

Microfinance Organisation Georgian Credit (hereinafter – the Company) is a Joint Stock Company which was established in 2006 in Tbilisi, Georgia, in accordance with the Georgian legislation. The Company is registered by Tbilisi Tax Inspection Department, under identification number 206238800.

The Company conducts its business under the Law on Microfinance Activity and is supervised by the National Bank of Georgia ("NBG").

The main business activity of the Company is lending (Up to GEL100,000). The Company's financial products are: agro loans, business loans, consumer loans and pawnshop loans.

The Company had 7 and 12 branches as at 31 December 2021 and 2020.

The legal address of JSC MFO Georgian Credit is located on 7 Sandro Euli Str., Saburtalo district, Tbilisi, Georgia.

As at 31 December 2021 the following shareholders owned the Company's shares:

Shareholders	Number of shares in 2021	Type	31 December 2021, %	Share capital GEL
Dr. Joerg Wulfken	1,738,271	Ordinary	31.57%	1,738,271
Frauenfinanztreuhand GmbH	1,090,318	Ordinary	19.80%	1,090,318
Dr. Norbert Kranz	867,935	Ordinary	15.76%	867,935
Thomas Schiffler	814,437	Ordinary	14.79%	814,437
Other shareholders owning less than 10%	995,542	Ordinary	18.08%	995,542
	5,506,503		**100.000%**	**5,506,503**

As at 31 December 2020 the following shareholders owned the Company's shares:

Shareholders	Number of shares in 2020	Type	31 December 2020, %	Share capital GEL
Eastern Capital AS	591,525	Ordinary	24.31%	591,525
Frauenfinanztreuhand GmbH	307,175	Ordinary	12.62%	307,175
Thomas Schiffler	287,283	Ordinary	11.81%	287,283
Dr. Joerg Wulfken	248,640	Ordinary	10.22%	248,640
Other shareholders owning less than 10%	380,945	Ordinary	41.04%	380,945
	1,815,568		**100%**	**1,815,568**

For more information about the Company's share capital, refer to Note 20.

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of measurement

These financial statements have been prepared under the historical cost convention except for derivative financial instruments which are measured at fair value.

The Company maintains its records and prepares financial statements in Georgian Lari (GEL) in accordance with International Financial Reporting Standards (IFRS) as required by Georgian legislation. The numbers are rounded to the nearest GEL unless otherwise indicated.

The reporting period for the Company is the calendar year from January 1 to December 31.

The principal accounting policies adopted in the preparation of the financial statements are set in the Note 24.

2. BASIS OF PREPARATION (CONTINUED)

The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires Company's management to exercise judgment in the most appropriate application in applying the Company's accounting policies. (note 3)

Going concern

These financial statements have been prepared on the assumption that the Company 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 Company in Georgia.

Despite these circumstances, the Company is facing some difficulties, which is as follows:

- The Company has accumulated deficit amounting GEL4,573,165 as at 31 December 2021;
- In 2022 the Company breached one of the covenants (cost to income ratio) stipulated in restructuring agreements with lenders. This event would have enabled the lenders to demand all of their loan receivables at the time of breach, which would cause significant liquidity problems to the Company.

Nevertheless, the Management believes that using going concern assumption is appropriate for the Company despite of the circumstances mentioned above. The reasons are as follows:

- The Company signed a EUR630,000 (GEL 2,02 thousand) loan agreement with **three** of the shareholders. All loan amounts have been transferred by April 2022. As a result, the Company increased its loan portfolio by GEL1M from the start of the year.
- The Company received waiver from lenders regarding breaching one of the covenants for 2022 quarter 1 and 2.
- According to the loan restructuring agreement, the Company has to pay 60% of the interest on all of its borrowings. This will save cash reserves for the Company.
- The Company actively plans to sell its repossessed properties and in addition, prepurchase agreements are going to be signed with previous owners. More than GEL1 million repossessed property is already under instalment contract before signing these financial statements, with more than GEL300,000 already paid by the clients;
- Modern Loan Origination software has been purchased from an established third-party provider and proprietary internal scoring model has been created using latest machine learning tools such as Random Forest. According to management judgment, these steps will further improve cost-efficiency of the loan process and data quality. Target launch date is July 2022;
- Credit and Recovery policies have been changed, in particular they became much stricter and conservative.

Upon estimating the reasonableness of basis of preparation, The Company Management also assessed the effect of outbreak of COVID-19 pandemic on its financial position as at 31 December 2021 and performance in the future. Considering the Company specifics, demand on its service and operations in 2021 was not significantly reduced due to covid pandemic.

Adoption of new or revised standards and interpretations

a) ***New standards, interpretations and amendments effective from 1 January 2021:***

There are some new standards and interpretations adopted by IASB but neither of them have a significant effect on the Company's financial statements:

- *COVID-19-Related Rent Concessions beyond 30 June 2021* (Amendments to IFRS 16); and
- *Interest Rate Benchmark Reform* – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

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 Company has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2022:

- *Onerous Contracts – Cost of Fulfilling a Contract* (Amendments to IAS 37);
- *Property, Plant and Equipment: Proceeds before Intended Use (*Amendments to IAS 16);

2. BASIS OF PREPARATION (CONTINUED)

- *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).

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 Singe Transaction (Amendment to IAS 12).*

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

The company is currently assessing the impact of these new accounting standards and amendments. The Company does not believe that the amendments to IAS 1 will have a significant impact on the classification of its liabilities, as the company does not have a convertible debt instrument with conversion feature in equity.

Other standards

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company 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 Company's accounting policies and that have the most significant effect on the loss allowances for expected credit losses:

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

As at 31 December 2021 and 2020, the Company considered the effect of on-going COVID-19 global pandemic outbreak on expected credit losses of their financial assets. The Company was not obliged to be part of the Government support measures, but on their voluntary purposes, different kinds of payment holidays were offered to its clients. These included grace periods on interest payments and renegotiation of loan terms, but substantial part only included first several months of payment holidays on interest and non-significant part the maturity date deferral.

The Company revised these modifications and considered that they have not significantly increased the credit risk of a loan due to the reason that most of these loans have already been repaid as at 31 December 2021 and 2020 as well as assessed the ageing analysis on individual basis and did not find any indications of "SICR" for significant part of those loans.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

The effect of non-substantial modification of these loans were recognized in statement of comprehensive income with the amount of GEL164,321 for the year ended 31 December 2020. The Company assessed those loan modifications effect for 2021 and considered that the behaviour of these loans mainly do not differ from ordinary restructuring loans.

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 Company. It considers all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Company 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.

Determination of collateral value. Management monitors market value of collateral on a regular basis. Management uses its experienced judgment to adjust the fair value to reflect current circumstances. The amount and type of collateral depends on the assessment of credit risk of the counterparty.

Taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. As a result the Company minimizes the risks related to this fact. The Company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law.

This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact tax expenses in the period in which such determination is made.

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Company is exposed to the different kind of risks that arise from its use of financial instruments. This note describes the Company'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.

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

	31 December 2021	31 December 2020
Cash and cash equivalents	407,298	2,727,013
Amounts due from credit institutions	-	5,554,207
Loans to customers	20,199,683	26,049,138
Borrowings	19,172,428	35,840,434
Subordinated borrowings	-	1,759,064
Lease liabilities	1,070,491	1,852,042
Other liabilities	1,010,302	130,304

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

General objectives, policies and processes

The Supervisory Board has overall responsibility for the determination of the Company'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 Company's finance function.

The Supervisory Board and appropriate committees receive monthly reports from the Company Managers through which they review the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Company's internal auditor also reviews the risk management policies and processes and reports its findings to the Management.

The overall objective of the Supervisory Board is to set polices that seek to reduce risks as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

- Credit risk
- Liquidity risk
- Market risk:
    - Interest rate risk
    - Currency risk

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of lending and other transactions with counterparties giving rise to financial asset.

The main business of the Company is to provide micro-loans. Respectively credit risk is of crucial importance in the Company's risk management. To avoid significant financial damage caused by this the Company uses various methods to identify and manage effectively the credit risks.

Based on experience the Company uses an established credit policy which establishes the following basic stages of credit risk management:

- Tasks of the Credit Committee
- Monitoring of issued loans
- Ways of working on delinquent loans.

The Credit Committee is the body responsible for analyzing the information contained in loan applications and assessing and reducing the credit risks as far as possible. The Committee is an independent body authorized to make the final decision about approving or rejecting a loan application.

Accuracy and correctness of information presented to the Committee is the responsibility of the credit officer, who fills in the initial application after due scrutiny of the applicant's business and its credit risks. Committee members assess the application against established criteria (applicant's credit history, financial condition, competitive ability, etc.) and will frequently ask the credit officer for more information about the applicant before making a decision.

Mitigation of credit risk is also achieved in some cases through securing loan with real estate or other material assets.

Assessment of the applicant's creditworthiness through careful analysis of its business reduces the risk of financial loss. Monitoring is performed by credit officers who report the results to the Management. The Company does not maintain a strictly determined schedule for monitoring.

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2021	31 December 2020
Cash and cash equivalents (excluding cash on hand)	308,880	2,612,297
Amounts due from credit institutions	-	5,554,207
Loans to customers	20,199,683	26,049,138
	20,508,563	**34,215,642**

The Company's credit department reviews aging analysis of outstanding loans and takes action to recover past due balances. Management therefore considers it to be appropriate to provide aging and other information about credit risk as disclosed in Note 12.

Market Risk

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors.

Market risk arises from the Company's use of interest bearing, tradable 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 interest rates (interest rate risk) and foreign exchange rates (currency risk).

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 Company. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities. All interest-bearing assets and

liabilities of the Company have fixed interest rate as at 31 December 2021 and 2020.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates, which can have adverse effects if there are mismatches by currency of financial assets and liabilities. The Company is exposed to the risks of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows.

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

Financial assets	**GEL**	**USD**	**EUR**	**Total**
Cash and cash equivalents*	285,018	19,078	103,202	**407,298**
Loans to customers**	19,426,599	759,219	13,865	**20,199,683**
Total financial assets	**19,711,617**	**778,297**	**117,067**	**20,606,981**
Financial liabilities				
Borrowings	107,575	9,760,507	9,304,346	**19,172,428**
Lease liabilities	-	1,070,491	-	**1,070,491**
Total financial liabilities	**107,575**	**10,830,998**	**9,304,346**	**20,242,919**
Open balance sheet position	**19,604,042**	**(10,052,701)**	**(9,187,279)**	**364,062**

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

*	GEL	USD	EUR	Total
Restricted cash in banks*	-	-	9,390,720	**9,390,720**
Borrowings collateralized with restricted cash in banks*	9,525,718	-	-	**9,525,718**
Forward agreement	-	8,965,522	-	**8,965,522**
**				
Loans to customers including impairment allowance	23,852,517	1,152,955	41,571	**25,047,043**
Impairment allowance	(4,446,338)	(374,773)	(26,249)	**(4,847,360)**

The Company's exposure to foreign currency exchange rate risk as of 31 December 2020 is presented in the table below:

Financial assets	GEL	USD	EUR	Total
Cash and cash equivalents	2,627,708	90,711	8,594	**2,727,013**
Loans to customers	24,627,949	1,404,853	16,336	**26,049,138**
Amounts due from credit institutions	-	-	5,554,207	**5,554,207**
Total financial assets	**27,255,657**	**1,495,564**	**5,579,137**	**34,330,358**
Financial liabilities				
Borrowings	389,107	19,420,552	16,030,775	**35,840,434**
Subordinated borrowings	605,000	1,154,064	-	**1,759,064**
Lease liabilities	7,698	1,844,344	-	**1,852,042**
Other liabilities	130,304	-	-	**130,304**
Total financial liabilities	**1,132,109**	**22,418,960**	**16,030,775**	**39,581,844**
Open balance sheet position	**26,123,548**	**(20,923,396)**	**(10,451,638)**	**(5,251,088)**

*	GEL	USD	EUR	Total
Restricted cash in banks*	-	-	10,538,993	**10,538,993**
Borrowings collateralized with restricted cash in banks*	10,538,993	-	-	**10,538,993**
Forward contracts	-	19,659,600	-	**19,659,600**
Loans to customers including impairment allowance	28,896,085	2,091,172	41,067	**31,028,324**
Impairment allowance	(4,268,136)	(686,319)	(24,731)	**(4,979,186)**

* For details about bank deposits and borrowings collateralized with bank deposits refer to Note 19.

CURRENCY RISK SENSITIVITY

The following table details the Company's sensitivity to a 20% increase and 20% decrease in the exchange rate of GEL per USD and per EUR. 20% is the sensitivity rate used when reporting foreign currency risk internally to key Management personnel 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 period for a 20% change in foreign currency exchange rates.

Impact on net profit and equity based on asset values including collateralized borrowings and restricted cash affect as well as impairment allowance can be presented as follows:

	31 December 2021		31 December 2020	
Currency rate sensitivity	**+20%**	**-20%**	**+20%**	**-20%**
USD impact	(217,436)	217,436	(252,759)	252,759
EUR impact	40,688	(40,688)	(17,471)	17,471
	(176,748)	**176,748**	**(235,368)**	**235,368**

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they actually fall due.

Liquidity of financial liabilities as at 31 December 2021 can be presented as follows:

Financial liabilities	1 month	1-3 months	3 months-1 year	1-2 years	2- 5 years	Total
Borrowings	117,706	143,768	1,611,358	1,346,920	20,490,324	**23,710,076**
Lease liabilities	47,619	95,238	428,571	571,428	-	**1,142,856**
Other liabilities	1,010,302	-	-	-	-	**1,010,302**
	1,175,627	**239,006**	**2,039,929**	**1,918,348**	**20,490,324**	**25,863,234**

Liquidity of financial liabilities as at 31 December 2020 can be presented as follows:

Financial liabilities	1 month	1-3 months	3 months-1 year	1-2 years	2- 5 years	Total
Borrowings*	35,840,434	-	-	-	-	**35,840,434**
Subordinated borrowings	1,759,064	-	-	-	-	**1,759,064**
Lease liabilities	83,543	128,951	500,304	667,728	667,728	**2,048,254**
Other liabilities	130,302	-	-	-	-	**130,302**
	37,813,343	**128,951**	**500,304**	**667,728**	**667,728**	**39,778,054**

*As at 31 December 2020 the Company was in the process of negotiating restructuring conditions with borrowers, thus it was uncertain on which conditions the parties would agree and the Company classified their borrowings as on-demand, accordingly.

Fair value measurement

IFRS 7 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 prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- **Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined based on the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity.

The Company has financial liabilities measured at fair value – “Financial instruments at fair value through profit or loss”; accordingly, they are presented under the IFRS 13 fair value measurement hierarchy on level 2.

Fair value of cash and cash equivalents is measured based on level 1. Fair values of all other financial assets and financial liabilities are measured on level 3. Fair value of these financial assets and liabilities are close to book value.

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

Capital disclosures

The Company's objectives when maintaining capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders;
- To comply with the capital requirements set by NBG and borrowers; and
- To provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Company sets the amount of capital it requires in proportion to risk. The Company manages its capital structure and adjusts 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 Company may adjust the amount of capital distributed to shareholders, return capital to shareholders, increase its capital, or sell assets to reduce debt.

The Company is in compliance with minimum statutory capital requirements of GEL1,000,000 as defined by the National Bank of Georgia as at 31 December 2021 and 2020, respectively.

5. NET INTEREST INCOME

Net interest income can be presented as follows:

	2021	2020
Interest income on financial assets recorded at amortized cost comprise:		
Loans to customers	6,907,192	8,782,135
Bank accounts	20,308	32,681
Total interest income	**6,927,500**	**8,814,816**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Borrowings and subordinated borrowings	(3,147,405)	(4,096,874)
Foreign currency forward contract expenses	(1,032,728)	(1,698,069)
Lease liabilities	(106,257)	(169,634_
Total interest expense	**(4,286,390)**	**(5,964,577)**
Net interest income	**2,641,110**	**2,850,239**

6. PROVISION FOR LOAN IMPAIRMENT

Movements in the loan impairment allowance for the year ended 31 December 2021 are as follows:

	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	**Total**
Balance at 1 January 2021	**512,105**	**1,171,488**	**3,295,593**	**4,979,186**
New loans issued	536,054	-	-	**536,054**
Transfer to Stage 1	106,263	(94,521)	(11,742)	**-**
Transfer to Stage 2	(1,226,297)	1,305,043	(78,746)	**-**
Transfer to Stage 3	-	(2,361,299)	2,361,299	**-**
Repaid loans	(414,882)	(374,827)	(1,730,414)	**(2,520,123)**
Write off for the year	-	-	(1,155,066)	**(1,155,066)**
Recoveries of previously written off	-	-	133,077	**133,077**
Changes due to change in credit-risk	994,210	1,103,582	776,440	**2,874,232**
Balance at 31 December 2020	**507,453**	**749,466**	**3,590,441**	**4,847,360**

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

	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL- credit-impaired	**Total**
Balance at 1 January 2020	**598,415**	**1,251,184**	**2,685,385**	**4,534,984**
New loans issued	867,899	-	-	**867,899**
Transfer to Stage 1	39,787	(36,592)	(3,195)	**-**
Transfer to Stage 2	(1,497,307)	1,547,036	(49,729)	**-**
Transfer to Stage 3	-	(1,947,208)	1,947,208	**-**
Repaid loans	(532,846)	(532,536)	(512,068)	**(1,577,450)**
Write off for the year	-	-	(2,492,864)	**(2,492,864)**
Recoveries of previously written off	-	-	86,785	**86,785**
Changes due to change in credit-risk	1,036,157	889,604	1,633,674	**3,559,435**
Balance at 31 December	**512,105**	**1,171,488**	**3,295,593**	**4,979,186**

Movements in the gross amount of issued loans for the year ended 31 December 2021 are as follows:

	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	**Total**
Balance at 1 January 2021	**17,427,103**	**8,010,940**	**5,590,281**	**31,028,324**
New loans issued	11,618,086	-	-	**11,618,086**
Transfer to Stage 1	2,062,747	(1,800,349)	(262,398)	**-**
Transfer to Stage 2	(5,770,562)	6,423,711	(653,149)	**-**
Transfer to Stage 3	-	(3,946,520)	3,946,520	**-**
Repaid loans	(12,228,303)	(3,364,841)	(622,511)	**(16,215,655)**
Write off for the year	-	-	(1,459,000)	**(1,459,000)**
FX Movement	2,817	36,788	35,683	**75,288**
Balance at 31 December 2021	**13,111,888**	**5,359,729**	**6,575,426**	**25,047,043**

6. PROVISION FOR LOAN IMPAIRMENT (CONTINUED)

Movements in the gross amount of issued loans for the year ended 31 December 2020 are as follows:

	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	**Total**
Balance at 1 January 2020	**23,999,882**	**9,528,714**	**5,653,398**	**39,181,994**
New loans issued	27,486,820	-	-	**27,486,820**
Transfer to Stage 1	1,061,103	(934,589)	(126,514)	**-**
Transfer to Stage 2	(8,145,963)	8,455,865	(309,902)	**-**
Transfer to Stage 3	-	(3,181,602)	3,181,602	**-**
Repaid loans	(26,987,560)	(6,017,979)	(529,821)	**(33,535,360)**
Write off for the year	-	-	(2,492,865)	**(2,492,865)**
Recoveries of previously written off	-	-	86,785	**86,785**
FX Movement	12,821	160,531	127,598	**300,950**
Balance at 31 December 2020	**17,427,103**	**8,010,940**	**5,590,679**	**31,028,722**

7. FEE AND COMMISSION INCOME

Fee and Commission income includes penalties on early payments, actual penalties on overdue days and other service commission fees, which in 2021 and 2020 amounted GEL308,941 and GEL297,736, respectively.

8. OTHER INCOME

Other income can be presented as follows:

	2021	**2020**
Benefit from borrowing restructuring agreement*	2,300,078	-
Lease modification effect	18,064	-
Lease concession	-	178,736
other	-	49,926
	2,318,142	**228,662**

*Details of benefit from restructuring loan agreement is presented in Note 18.

9. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative and other operating expenses can be presented as follows:

	2021	2020
Professional services *	(198,185)	(152,800)
Office maintenance	(106,171)	(104,261)
Utilities	(87,759)	(81,409)
Taxes other than income tax	(81,192)	(36,503)
Communication expenses	(76,796)	(88,028)
Court related expenses	(63,845)	(46,208)
Bank fees	(58,704)	(13,507)
Software maintenance	(42,900)	(71,865)
Business trips	(42,788)	(20,133)
Fuel	(39,768)	(26,982)
Stationary	(22,046)	(28,847)
Advertising and marketing expenses	(2,805)	(6,180)
Impairment of prepayments	-	(138,533)
Other	(71,564)	(60,977)
	(894,523)	**(876,233)**

*Audit fee in the year 2021 amounted GEL44,326 (2020: GEL44,664)

10. INCOME TAX BENEFIT (EXPENSE)

Income tax benefit (expense) can be presented as follows:

	2021	2020
Current tax	-	-
Derecognized deferred tax assets	(479,197)	(237,967)
Effect of temporary differences	153,017	241,322
	(326,180)	**3,355**

Reconciliation of income tax benefit (expense) based on statutory rate with actual income tax is as follows:

	2021	2020
Income (loss) before income tax	**349,632**	**(4,152,910)**
Applicable tax rate	15%	15%
Theoretical income tax	(52,445)	622,937
Derecognized deferred tax assets	(479,197)	(237,967)
Effect of permanent differences	205,462	(381,615)
	(326,180)	**3,355**

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be presented as follows:

	31 December 2021	31 December 2020
Cash on hand	98,418	114,716
Cash on current accounts with banks in GEL	205,678	2,521,643
Cash on current accounts with banks in other currencies	103,202	90,654
	407,298	**2,727,013**

Cash and cash equivalents are recognized under Stage 1 ECL assessment and their expected credit losses are not material. As at 31 December 2021 and 2020, cash and cash equivalents are placed at commercial banks with credit ratings are B (Short-term) and BB-/B+ (Long-term), respectively.

12. LOANS TO CUSTOMERS

Loans to customers can be presented as follows:

	31 December 2021	31 December 2020
Principal	22,608,863	28,690,388
Interest	2,438,180	2,337,936
Impairment allowance	(4,847,360)	(4,979,186)
	20,199,683	**26,049,138**

Portfolio distribution as at 31 December 2021, by loan type is as follows:

31 December 2021	Gross Amount	*ECL* Stage 1	Stage 2	Stage 3	Total ECL	Net Amount	ECL %
Agro Loan	14,853,060	(203,985)	(379,378)	(2,194,806)	(2,778,169)	12,074,891	18.70%
Business Loan	8,609,953	(286,718)	(322,314)	(1,203,664)	(1,812,696)	6,797,257	21.05%
Consumer Loan	1,500,668	(16,750)	(47,774)	(191,971)	(256,495)	1,244,173	17.09%
Pawnshop Loan	83,362	-	-	-	-	83,362	0.00%
	25,047,043	**(507,453)**	**(749,466)**	**(3,590,441)**	**(4,847,360)**	**20,199,683**	**19.35%**

Portfolio distribution as at 31 December 2020, by loan type is as follows:

31 December 2020	Gross Amount	*ECL* Stage 1	Stage 2	Stage 3	Total ECL	Net Amount	ECL %
Agro Loans	16,034,458	(212,064)	(657,206)	(1,778,365)	(2,647,635)	13,386,823	16.51%
Business Loans	11,828,452	(245,089)	(441,377)	(1,210,680)	(1,897,146)	9,931,306	16.04%
Consumer Loans	3,056,502	(54,952)	(72,905)	(306,548)	(434,405)	2,622,097	14.21%
Pawnshop Loans	108,912	-	-	-	-	108,912	0.00%
	31,028,324	**(512,105)**	**(1,171,488)**	**(3,295,593)**	**(4,979,186)**	**26,049,138**	**16.05%**

Information about movements in provision for loan impairment is given in Note 6.

Currency analysis of loans to customers is given in Note 4.

12. LOANS TO CUSTOMERS (CONTINUED)

Analysis by credit quality of loans outstanding at 31 December 2021 is as follows:

Agro Loan

31 December 2021	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	8,932,353	358,802	9,291,155	(440,390)	8,850,765	4.74%
-overdue less than 31 days	537,668	40,705	578,373	(57,406)	520,967	9.93%
-overdue 31-60 days	192,810	30,944	223,754	(35,101)	188,653	15.69%
-overdue 61-90 days	317,098	70,897	387,995	(50,467)	337,528	13.01%
-overdue more than 90 days	3,156,219	1,215,564	4,371,783	(2,194,805)	2,176,978	50.20%
	13,136,148	**1,716,912**	**14,853,060**	**(2,778,169)**	**12,074,891**	**18.70%**

Business Loan

31 December 2021	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	5,548,583	119,166	5,667,749	(437,743)	5,230,006	7.72%
-overdue less than 31 days	726,213	53,499	779,712	(123,300)	656,412	15.81%
-overdue 31-60 days	60,563	21,624	82,187	(19,404)	62,783	23.61%
-overdue 61-90 days	156,899	17,186	174,085	(28,585)	145,500	16.42%
-overdue more than 90 days	1,523,052	383,168	1,906,220	(1,203,664)	702,556	63.14%
	8,015,310	**594,643**	**8,609,953**	**(1,812,696)**	**6,797,257**	**21.05%**

Consumer Loan

31 December 2021	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	759,523	11,860	771,383	(28,174)	743,209	3.65%
-overdue less than 31 days	272,960	23,813	296,773	(26,512)	270,261	8.93%
-overdue 31-60 days	12,010	523	12,533	(1,814)	10,719	14.47%
-overdue 61-90 days	56,158	979	57,137	(8,024)	49,113	14.04%
-overdue more than 90 days	275,107	87,735	362,842	(191,971)	170,871	52.91%
	1,375,758	**124,910**	**1,500,668**	**(256,495)**	**1,244,173**	**17.09%**

Pawnshop Loan

31 December 2021	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	22,741	358	23,099	-	23,099	0.00%
-overdue less than 31 days	58,906	1,357	60,263	-	60,263	0.00%
	81,647	**1,715**	**83,362**	**-**	**83,362**	**0.00%**

12. LOANS TO CUSTOMERS (CONTINUED)

Analysis by credit quality of loans outstanding at 31 December 2020 is as follows:

Agro Loan	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	10,902,672	454,844	11,357,516	(671,544)	10,685,972	5.91%
-overdue less than 31 days	1,099,662	97,738	1,197,400	(133,175)	1,064,225	11.12%
-overdue 31-60 days	125,026	13,860	138,886	(30,029)	108,857	21.62%
-overdue 61-90 days	150,079	44,985	195,064	(34,522)	160,542	17.70%
-overdue more than 90 days	2,374,799	770,793	3,145,592	(1,778,365)	1,367,227	56.54%
	14,652,238	**1,382,220**	**16,034,458**	**(2,647,635)**	**13,386,823**	**16.51%**

Business loans	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	8,537,562	290,944	8,828,506	(536,128)	8,292,378	6.07%
-overdue less than 31 days	859,863	61,302	921,165	(134,988)	786,177	14.65%
-overdue 31-60 days	33,790	2,667	36,457	(8,827)	27,630	24.21%
-overdue 61-90 days	43,431	3,914	47,345	(6,523)	40,822	13.78%
-overdue more than 90 days	1,587,733	407,246	1,994,979	(1,210,680)	784,299	60.69%
	11,062,379	**766,073**	**11,828,452**	**(1,897,146)**	**9,931,306**	**16.04%**

Consumer Loan	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	2,271,703	83,199	2,354,902	(99,984)	2,254,918	4.25%
-overdue less than 31 days	220,686	9,959	230,645	(20,117)	210,528	8.72%
-overdue 31-60 days	11,391	889	12,280	(3,551)	8,729	28.92%
-overdue 61-90 days	8,293	556	8,849	(4,205)	4,644	47.52%
-overdue more than 90 days	358,985	90,841	449,826	(306,548)	143,278	68.15%
	2,871,058	**185,444**	**3,056,502**	**(434,405)**	**2,622,097**	**14.21%**

Pawnshop Loans	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	98,690	4,050	102,740	-	102,740	0.00%
-overdue less than 31 days	6,023	149	6,172	-	6,172	0.00%
	104,713	**4,199**	**108,912**	**-**	**108,912**	**0.00%**

Loans with collaterals and without collaterals outstanding at 31 December 2021 can be presented as follows:

31 December 2021	**Gross Amount**	**ECL**	**Net Amount**	**ECL %**
Collateralized Loans	18,194,910	(4,170,491)	14,024,419	22.92%
Uncollateralized Loans	6,852,133	(676,869)	6,175,264	9.88%
	25,047,043	**(4,847,360)**	**20,199,683**	**19.35%**

12. LOANS TO CUSTOMERS (CONTINUED)

Loans with collaterals and without collaterals outstanding at 31 December 2020 can be presented as follows:

31 December 2020	Gross Amount	ECL	Net Amount	ECL %
Collateralized Loans	26,004,144	(4,208,698)	21,795,446	16.18%
Uncollateralized Loans	5,024,180	(770,488)	4,253,692	15.33%
	31,028,324	**(4,979,186)**	**26,049,536**	**16.05%**

Loans with collaterals by collateral's type can be presented as follows:

Collateral Type	31 December 2021	31 December 2020
Personal	10,170,527	10,382,664
Real Estate	7,748,039	15,378,586
Machinery	192,983	133,,982
Jewelry	83,361	108,912
	18,194,910	**26,004,144**

13. OTHER ASSETS

Other assets can be presented as follows:

	31 December 2021	31 December 2020
Repossessed collaterals*	6,517,167	5,837,170
Prepayments	152,363	138,424
Derivative financial instrument**	241,971	64,872
Other	100,087	80,082
Impairment of prepayments	(138,424)	(138,424)
	6,873,164	**5,982,124**

As at 31 December 2021 and 2020 the movements of the balance of repossessed collaterals can be presented as follows:

1 January	**5,837,170**	**4,833,744**
Additions	1,687,324	1,341,773
Disposals	(749,246)	(253,771)
Impairment	(258,081)	(84,576)
31 December	**6,517,167**	**5,837,170**

Changes that are presented in the statement of total comprehensive income related to repossessed collaterals can be presented as follows:

	2021	2020
Gain at initial recognition	363,999	351,793
Impairment of repossessed collaterals	(258,081)	(84,576)
Net loss on sale of repossessed collaterals	47,013	(51,170)
	152,931	**216,047**

** Foreign exchange risk arises when the Company enters into transactions denominated in a currency other than their functional currency. Where the risk to the Company is considered to be significant, the Company's treasury will enter into a USD/GEL exchange forward contract with a local commercial banks.

Forward contract balance as of 31 December 2021 amounted USD2,800,000 (2020: 6,000,000) which means that the Company has to repurchase GEL 8,965,522 as the contract matures (2020: GEL19,659,600).

14. DEFERRED TAX ASSET

Deferred tax asset can be presented as follows:

	31 December 2021	31 December 2020
At 1 January	**326,180**	**322,825**
Recognized in profit and loss		
Income tax benefit/(expense)	153,017	241,322
Derecognized deferred tax assets	(479,197)	(237,967)
At 31 December	**-**	**326,180**

Temporary differences as of 31 December 2021 can be presented as follows:

	Asset	Liability	Net	(Charged)/ credited to profit or loss
	2021	2021	2021	2021
Loans to customers	255,802	-	255,802	(47,207)
Right of use assets	-	(140,614)	(140,614)	78,061
Other assets	-	(32,937)	(32,937)	(2,133)
Property and equipment and intangible assets	-	(33,367)	(33,367)	17,571
Borrowings	-	(65,759)	(65,759)	(106,109)
Lease liabilities	160,574	-	160,574	(117,232)
Other liabilities	21,822	-	21,822	16,390
Tax loss carry-forward	833,483	-	833,483	313,676
Total temporary differences	**1,271,681**	**(272,677)**	**999,004**	**153,017**
Unrecognized deferred tax assets				
Loans to customers	(165,521)		(165,521)	(165,521)
Tax loss carry-forward	(833,483)	-	(833,483)	(313,676)
Total unrecognized deferred tax assets	**(999,004)**	**-**	**(999,004)**	**(479,197)**
Net tax assets/(liabilities)	**272,677**	**(272,677)**	**-**	**(326,180)**

Temporary differences as of 31 December 2020 can be presented as follows:

	Asset	Liability	Net	(Charged)/ credited to profit or loss
	2020	2020	2020	2020
Loans to customers	303,009	-	303,009	(75,165)
Right of use assets	-	(218,675)	(218,675)	112,618
Other assets	-	(30,804)	(30,804)	25,891
Property and equipment and intangible assets	-	(50,938)	(50,938)	10,454
Borrowings and subordinated borrowings	40,350	-	40,350	15,419
Lease liabilities	277,806	-	277,806	(84,711)
Other liabilities	5,432	-	5,432	(1,151)
Tax loss carry-forward	519,807	-	519,807	237,967
Total temporary differences	**1,146,404**	**(300,417)**	**845,987**	**241,322**
Unrecognized deferred tax assets				
Tax loss carry-forward	(519,807)	-	(519,807)	(237,967)
Total unrecognized deferred tax assets	**(519,807)**	**-**	**(519,807)**	**(237,967)**
Net tax assets/(liabilities)	**626,597**	**(300,417)**	**326,180**	**3,355**

15. INTANGIBLE ASSETS

Intangible assets can be presented as follows:

Historical cost	**Accounting and other software**	**Other intangible assets**	**Total**
Historical cost 31.12.2019	**455,206**	**39,701**	**494,907**
Additions	14,589	-	**14,589**
Historical cost 31.12.2020	**469,795**	**39,701**	**509,496**
Additions	17,095	3,200	**20,295**
Historical cost 31.12.2021	**486,890**	**42,901**	**529,791**
Accumulated amortization			
Accumulated amortization 31.12.2019	**(110,233)**	**(6,840)**	**(117,073)**
Amortization	(60,154)	(1,939)	**(62,093)**
Accumulated amortization 31.12.2020	**(170,387)**	**(8,779)**	**(179,166)**
Amortization	(64,073)	(2,130)	**(66,203)**
Accumulated amortization 31.12.2021	**(234,460)**	**(10,909)**	**(245,369)**
Net book value			
Net book value 31.12.2020	**299,408**	**30,922**	**330,330**
Net book value 31.12.2021	**252,430**	**31,992**	**284,422**

16. LEASES

The Company leases a head office and 7 (2020: 12) service centres around Georgia. Rent for these spaces is fixed over the lease term and are denominated in USD (2020: USD and GEL). The lease term is defined as 2 years (2020: 3-4 years and less). The incremental borrowing rate for 2021 was 7.47%-9.92% per annum in terms of lease terms and currency (2020: 7.45%-12.51%).

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

	Head office and branches
At 31 December 2019	**2,208,617**
Addition	392,761
Effect of modification to lease terms	(379,506)
Depreciation	(764,036)
At 31 December 2020	**1,457,836**
Disposal	(52,086)
Modification	123,048
Depreciation	(591,372)
At 31 December 2021	**937,426**

16. LEASES (CONTINUED)

Lease liabilities can be presented as follows:

	Head office and branches
At 31 December 2019	**2,416,781**
Addition	392,761
Modification	(425,297)
Interest expense	170,108
Lease payments	(833,507)
Rent concessions*	(178,736)
Foreign exchange movements	309,932
At 31 December 2020	**1,852,042**
Modification	107,925
Interest expense	106,257
Lease payments	(607,767)
Disposal	(57,496)
Foreign exchange movements	(330,470)
At 31 December 2021	**1,070,491**

17. PROPERTY AND EQUIPMENT

Property and equipment can be presented as follows:

Historical cost	Leasehold improvements	Furniture and office equipment	Computer and communication equipment	Vehicles	Total
31 December 2019	**304,632**	**427,939**	**801,625**	**88,233**	**1,622,429**
Additions	-	50,805	20,897	-	**71,702**
Disposals	(36,153)	(43,960)	(32,064)	-	**(112,177)**
31 December 2020	**268,479**	**434,784**	**790,458**	**88,233**	**1,581,954**
Additions	-	-	29,680	-	**29,680**
Disposals	(103,902)	-	(5,893)	-	**(109,795)**
31 December 2021	**164,577**	**434,784**	**814,245**	**88,233**	**1,501,839**
Accumulated depreciation					
31 December 2019	**(130,468)**	**(312,370)**	**(742,839)**	**(27,471)**	**(1,213,148)**
Depreciation for the year	(30,662)	(49,481)	(55,957)	(5,299)	**(141,399)**
Accumulated depreciation of disposals	36,153	43,960	32,064	-	**112,177**
31 December 2020	**(124,977)**	**(317,891)**	**(766,732)**	**(32,770)**	**(1,242,370)**
Depreciation for the year	(19,219)	(52,386)	(30,246)	(7,888)	**(109,739)**
Accumulated depreciation of disposals	103,902	-	5,893	-	**109,795**
31 December 2021	**(40,294)**	**(370,277)**	**(791,085)**	**(40,658)**	**(1,242,314)**
Net book value					
Net book value 31.12.2020	**143,502**	**116,893**	**23,726**	**55,463**	**339,584**
Net book value 31.12.2021	**124,283**	**64,507**	**23,160**	**47,575**	**259,525**

The Company has fully depreciated assets with the amount GEL751,076 and GEL560,118for the year ended 31 December 2021 and 2020, respectively.

18. SUBORDINATED AND OTHER BORROWINGS

Borrowings can be presented as follows:

	Interest rate	Currency	31 December 2021	31 December 2020
Non-resident financial institutions	5% - 12%	USD-EUR	15,710,078	27,652,473
Shareholders	5% - 15%	GEL-USD-EUR	3,462,350	8,187,961
			19,172,428	**35,840,434**

In 2021 the Company signed restructuring agreement between lenders on each borrowing, according to which the Company's borrowings and subordinated borrowings with amount GEL 3,690,935 has been converted to share capital.

In addition to the above, the following changes occurred in borrowings:

- 40% of contractual interest rate has been waived from April 2021 till December 2022 for all non-subordinated loans;

18. SUBORDINATED AND OTHER BORROWINGS (CONTINUED)

- the Company made an early partial pay-out of at least 28% of it outstanding borrowing exposure as of 31 December 2020;
- The repayments of the remaining principal outstanding amounts under each of the credit facilities (amounts due after partial early pay-out is executed) shall be resumed in June 2024 and all borrowings shall be fully repaid no later than 31 March 2025.

In addition, in 2021, several shareholders and one international fund forgave the Company the principal amount of their borrowing. From forgiving these principals as well as waiving part of interest according to restructuring agreement, the Company received a benefit in total of GEL3,015,679 (other income and other reserve GEL2,300,078 and GEL715,601, respectively)

Under the restructuring agreement, the Company has several financial covenants to satisfy, main of which are presented as follows:

- Capital adequacy ratio
- Cost to income ratio
- Non-performing loans ratio
- Nonhedged FX position ratio

The Company satisfied all the financial covenants as at 31 December 2021.

Details for borrowings from non-resident financial institutions can be presented as follows:

	Nominal interest rate	Effective interest rate	
	31 December 2021	**31 December 2021**	**31 December 2020**
Invest in Visons GmbH on behalf of HANSAINVEST GmbH Investment for the account of IIV Mikrofinanzfonds	2,633,710	2,573,822	5,731,411
BANKIM BISTUM ESSEN eG (on behalfofKCD Mikrofinanzfonds (ETSI - Global)	3,042,896	2,972,544	4,903,367
Microfinance Enhancement Facility SA SICAV-SIF	2,532,740	2,467,499	4,073,293
GLS ALTERNATIVE INVESTMENTS SICAV-Mikrofinanzfonds	2,244,174	2,171,724	3,293,644
Triple Jump Innovation Fund B.V	2,263,238	2,192,825	3,311,687
SME Finance-Loans for Growth Fund	13,767	13,767	2,993,174
INVEST IN VISIONs GmbH	1,701,406	1,650,129	2,540,954
EMF Microfinance Fund AGmvK	564,479	546,366	804,943
MCE Social Capital	1,144,216	1,121,402	-
	16,140,626	**15,710,078**	**27,652,473**

Accrued interest and principal balances can be presented as follows:

	31 December 2021	**31 December 2020**
Principal balance	18,926,473	35,397,669
Accrued interest	245,955	442,765
	19,172,428	**35,840,434**

Currency and maturity analysis of borrowings is given in Note 4.

Current and non-current portions of borrowings can be presented as follows:

	31 December 2021	**31 December 2020**
Current	245,955	35,840,434
Non-current	18,926,473	-
	19,172,428	**35,840,434**

18. SUBORDINATED AND OTHER BORROWINGS (CONTINUED)

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

	31 December 2021	31 December 2020
1 January	**37,599,498**	**34,996,013**
Cash flow		
Received (paid) loans, net	(10,553,432)	(3,005,088)
Interest paid	(2,762,462)	(4,259,021)
Non-cash flows		
Interest accrual	3,147,405	4,096,874
Transfer to share capital	(3,690,935)	(448,612)
Benefit from restructuring agreements	(3,015,679)	-
Effect of foreign currency fluctuations	(1,551,967)	6,219,332
31 December	**19,172,428**	**37,599,498**

Subordinated borrowings can be presented as follows:

	31 December 2021	31 December 2020
Principal balance	-	1,715,809
Accrued interest	-	43,255
	-	**1,759,064**

Subordinated borrowings with amount GEL1,116,917 (2020: GEL448,612) were converted into the share capital. Details for remaining subordinated borrowings of GEL642,147 are presented in Note 19.

19. OTHER LIABILITIES

Other liabilities can be presented as follows:

	31 December 2021	31 December 2020
Liability to increase share capital*	642,147	-
Received advances**	231,857	138,116
Accounts payable to employees	145,478	36,214
Financial instruments at fair value through profit or loss****	134,998	-
Taxes payable***	19,542	42,446
Other liabilities	68,137	51,644
	1,242,159	**268,420**

* Liability to increase share capital represents part of subordinated borrowings, that according to the restructuring agreement should have been used to increase share capital. The Company was not able to make registration of capital increase because National Bank of Georgia requested additional documentation which could not be delivered timely by 31 December 2021.

**Received advances represents amounts received from previous owners of repossessed assets. The agreements have been arranged between JSC MFO "Georgian Credit" and previous owners for a repurchase of those assets. Value of repossessed assets on which there is a prepurchase agreement is GEL695 thousand.

***According to the Georgian Tax Legislation, the Company should pay taxes on unified treasury code applicable for all taxes. As a result, as at 31 December 2021 and 2020 the Company presents tax assets and liabilities on a net basis.

19. OTHER LIABILITIES (CONTINUED)

**** The Company aggregates non-derivative transactions of back-to-back loans from banks guaranteed by foreign currency deposits placed at the same banks as derivative instruments (foreign currency contracts), due to the fact that the transactions (placement of deposit and receiving of the loan) result, in substance, in a derivative.

The conclusion is based on the following indicators:
- They are entered into at the same time and in contemplation of one another;

- They have the same counterparty;

- They relate to the same risk;

- There is no apparent economic need or substantive business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction;

- There is an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and
future settlement.

As at 31 December 2021 financial instruments at fair value through profit or loss comprise foreign currency contracts with the amount of GEL134,998 (liability).

In 2020, the Company repaid borrowing but left its respective cash at bank since it was going to take a new loan. The cash is restricted, original maturity is more than three months and the Company is not able to use it on its own discretion. As such, The Company classified GEL5,554,207 as amounts due from credit institutions.

20. SHARE CAPITAL, SHARE PREMIUM AND OTHER RESERVE

The Company's share capital as at 31 December 2021 and 2020 comprise of 5,506,503 and 1,815,568 ordinary shares in issue with a value of GEL1 each, respectively.

Due to conversion of subordinated borrowings and other loans the Company's share capital increased by GEL3,690,935 in 2021 (GEL1,759,064 and GEL1,931,871 respectively).

Information about Shareholders is disclosed in Note 1.

Share premium with amount GEL5,827,501 represents a difference between the par value of issued ordinary shares and the fair value of actual consideration received.

Other reserve with amount GEL715,601 represents benefit received from forgiving loan principal and interest by shareholders according to borrowing restructuring agreement. Difference between nominal and fair values of borrowings because of waiving part of interest as well as difference between restructured discounted future cash flows and nominal value has been recognised in capital, in other reserve.

21. CONTINGENCIES AND COMMITMENTS

Litigation

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

NBG regulations

On 5 July 2018 the president of the National Bank of Georgia has approved regulation on assets classification and the creation of reserves for possible losses by Microfinance Organisations.

The Management states that the Company is in compliance with the requirements of NBG for the years 2021 and 2020, except the following ratios - Supervisory capital ratio and liquidity ratio. The Company got waiver from the NBG, according to which the Company is obliged to meet these ratios by 31 December 2022. It should be noted that this assessment relies on estimates and assumptions and may involve a series of complex judgments about future events and could be different from the judgments of regulators.

21. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Management report

In accordance with the Law on accounting, reporting and auditing (article 7) the Company 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 Company has fulfilled this obligation at the date of issue of the financial statements.

Taxes

Georgian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. As per currently effective tax legislation in Georgia fiscal periods remain open to review by the authorities in respect of taxes for 3 calendar years preceding the period of review.

Provisions for tax liabilities are recognised when the amount can be measured reliably. No provision is recognised for uncertain tax positions if no reliable estimate can be made. The Company's Management believes that Georgian tax legislation does not give raise to any further obligation other than already recorded and the Company's tax positions will be sustained.

22. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Company that gives them significant influence over the Company; or that have joint control over the Company;

b) Members of key management personnel of the Company 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 (b) or (c);

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 Company and related parties are disclosed below.

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

Financial statement caption	Shareholders	Key management personnel	Total in financial statements
Borrowings	3,462,350	-	**19,172,428**
Interest expense	(311,673)	-	**(2,863,090)**
Staff costs including salaries and bonuses	-	(506,953)	**19,172,428**

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

Financial statement caption	Shareholders	Key management personnel	Total in financial statements
Borrowings	8,187,961	-	**23,710,077**
Subordinated borrowings	1,759,064	-	**1,759,064**
Interest expense	(378,580)	-	**(4,286,390)**
Staff costs including salaries and bonuses		(336,000)	**(2,863,090)**

23. EVENTS AFTER THE REPORTING PERIOD

In March and April 2022 the Company received loan borrowing amounting GEL2,02 million (EUR630,000), with annual interest rate 5%.

The Company received waiver of first two quarters of 2022 from its borrowers for the loan covenant as it breached Cost to income ratio.

On 17 February 2022 the President of the National Bank of Georgia issued Order №14/04 “Approval of the Code of Ethics for the loan issuance by financial organisations”, which defined and framed the behaviour of financial institutions in the process of loan disbursement. Specific obligations and responsibilities were written for financial organisations and a wide list of rights for borrowers. According to the order, from 1 June 2022, all financial organisations are required to establish and maintain communication with the customer, authorized person, contact person and/or third party related to the customer, except on site visits. All documentations related to the communication must be kept at least for two months.

On 1 April 2022, the Order №31/04 was issued by the President of the National Bank of Georgia, which was enforced on 25 March 2022. According to the order the loan service and collateral limits/ratios were changed.

The Russian Federation’s invasion of Ukraine and the subsequent global response to those military actions may have significant financial effects on many entities. These include entities with physical operations in Ukraine, Russia and Belarus, as well as indirect interests (e.g. suppliers and customers, investments and lenders). Sanctions placed on the Russian government, Russian entities and Russian individuals by many jurisdictions may also affect entities, such as a loss of access to financial resources and trade, as well as the consequential effects of sanctions on worldwide prices (e.g. oil, natural gas and other petroleum products).

Management is unable to assess the impact (or potential impact) of this war on the company’s operations. As at 31 December 2021 and the date of these financial statements, the company has no significant operations and balances with the companies/individuals affected by the war.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal accounting policies applied in the preparation of these financial statements are set out below. These policies are consistently applied to all the years presented, unless otherwise stated.

FOREIGN CURRENCY TRANSLATION

The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The Company’s functional and presentation currency is the national currency of Georgia, Lari.

Monetary assets and liabilities are translated into functional currency at the official exchange rate for the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities at year-end official exchange rates are recognized in statement of comprehensive income. Translation at year-end rates does not apply to nonmonetary items.

The closing exchange rates used for translating foreign currency balances to Georgian Lari were:

	Official rate of the National Bank of Georgia	
	USD	**EUR**
Exchange rate as at 31 December 2021	3.0976	3.5040
Exchange rate as at 31 December 2020	3.2766	4.0233

FINANCIAL INSTRUMENTS

In according to IFRS 9 the Company classifies all of its financial assets based on the business model. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

Financial liabilities are measured at amortized cost or at fair value through profit or loss (FVTPL).

All derivative instruments are measured at fair value through profit or loss (FVTPL).

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Initial recognition of financial instruments

Financial assets and financial liabilities are recognised in the Company's financial position when the Company becomes a party to the contractual provisions of the instrument.

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

If the transaction price differs from fair value at initial recognition, the Company 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 Company 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 Company 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 AMORTIZED COST

Financial asset at amortised cost is the most relevant measurement category to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

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

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

A financial asset is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- 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 Company's all financial assets are measured at amortised cost, except Derivative financial assets.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Company has considered quantitative factors and qualitative factors such as how the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel; the risks that affect the performance of the business model and, in particular, the way those risks are managed; and how managers of the business are compensated.

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

SOLELY PAYMENTS OF PRINCIPAL AND INTEREST (SPPI)

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

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

In assessing whether the contractual cash flows are SPPI, the Company 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 Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

IMPAIRMENT OF FINANCIAL ASSETS

Bases for ECL principles

In according to IFRS 9 requirements the Company records an allowance for expected credit loss (ECL) on all of its debt financial assets at amortised cost or FVOCI.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity instruments are not subject to impairment under IFRS 9.

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 Company 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 assessesed loans are grouped based on shared credit risk characteristics, collateral type and product type.

Three stage approach

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

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

Stage 2: The Company recognizes a credit loss allowance at an amount equal to lifetime expected credit losses for those Financial Instruments which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default that represents the probability of default occurring over the remaining lifetime of the Financial Instrument.

Allowance for credit losses is 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 Company recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a Probability of Default (PD) of 100 % for those Financial Instruments that are credit-impaired.

Allocating issued loans on stages based on overdue days are as follows:

Business Profile	Stage 1	Stage 2	Stage 3
Agro Loans	0-30	31-90	>90
Business Loans	0-30	31-90	>90
Consumer Loans	0-30	31-90	>90
Pawnshop Loans	0-30	31-90	>90

The Company automatically assigns stage 1 to the loan when it is issued. The loan is transferred to stage 2 if one of the following events occur:

a) 31 days past due;
b) Loan restructuring;
c) Initiation of legal proceedings on collateral by third party;
d) Criminal case against debtor or co-debtor;
e) Loss of job by the borrower;
f) Liquidation of a large part of the borrower's business;
g) Significant deterioration of the sector in which the borrower operates.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The loan is transferred from stage 2 to stage 1 if following events occur:

h) Overdue days are between 0 and 30;
i) Improvement of the circumstances for which the loan was moved to stage 2.

Restructured loans aren't transferred back to stage 1.

Defaulted loans are immediately moved to stage 3 and could be transferred to the previous stages.

Definition of default

Default status is assigned/applied to the loan if one of the following events occur:

a) 91 days past due;
b) Death or disappearance of the debtor or co-debtor;
c) Destruction or disappearance of collateral;
d) Bankruptcy or liquidation of the business (Relevant in case of business loans).

The definition of default is in line with relevant regulations taking into account the 90 days past due cap presumption of IFRS 9.

The loans for which the Company recognizes default are credit-impaired loans.

Loan Restructuring

Restructuring operation/transaction is made within current liability. The agreement about changes in loan term is formed between the Company and borrower and the recalculation of loan schedule is done afterwards.

Loan restructuring is considered as change in credit risk for the Company. Restructured loans are not moved directly to stage 3 because such modification does not lead to material losses for the Company. Accordingly, restructured loans are moved to Stage 2. Restructured loans aren't transferred back to stage 1.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company 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 Company'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 Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

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

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and

There is no unwarranted volatility in loss allowance from transfers between 12-months PD (probability of default) and lifetime PD.

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 Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company has identified and documented the key drivers of credit risk and credit losses for the portfolio using an analysis of historical data, has assessed impact of macro-economic variables on probability of default and recovery rate. The following macro-economic variables were analyzed:

- Real growth rate of GDP of Georgia;
- Inflation rate.

Forecasting of forward-looking information

The Company uses last 3 years statistics (in case of existence) updated annually to estimate correlation between default rates and macroeconomic variables (GDP growth, inflation) and when calculating expected credit loss, specific macroeconomic forecast scenarios are considered if only correlation with inflation and GDP growth is more than 0.3 and less than -0.5, accordingly.

The Company uses baseline, upside and adverse scenarios provided by National Bank of Georgia. Based on the recommendation of National Bank of Georgia, probability of 50% is assigned to the baseline scenario, while the upside and adverse scenarios are given probability of 25%. The Company uses Vasicek model to adjust probability of default for forward-looking information.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

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

Expected credit loss is measured separately for all segments. These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above. The variables (excluding EAD) are calculated annually. EAD is updated every time the loan loss provision 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.

The Company uses last 4 years statistics in case of existence (but not less than 2 years) to determine probability of default. This figure is calculated separately for all segments by applying migration matrix to the loan portfolio, which shows the probability that the loan portfolio will move from one bucket to another. Migration matrix is divided into following buckets:

Bucket	Days overdue	Restructuring status	Stage
1	Closed		
2	0	No	I
3	1-30	No	I
4	31-60	No	II
5	61-90	No	II
6	0-90	Yes	II
7	>90	Yes	III
8	>90	No	III

In case of default, default probability of 100% is assigned to the loan.

Loss given default (LGD)

LGD is is used to determine the amount of losses that may arise in case of default. In order to calculate loss given

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

default, the Company uses loan amounts that were defaulted during last 3 years (in case of existence) and related cash inflows from default moment till reporting date.

The determination of the LGD considers expected future cash flows from collateral and other credit enhancements or expected pay-outs from bankruptcy proceedings for unsecured claims and where applicable time to realisation of collateral and the seniority of claims. Recovery through collateral is further considered in LGD calculations individually for each Financial Instrument.

Cash inflows are discounted by the weighted average effective interest rate that must not exceed the limits set by the legislation. Loss given default is calculated separately for all segments.

Exposure at default (EAD)

Exposure of default (EAD): The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial asset. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals discounted at the EIR, that must not exceed the limits set by the legislation.

EAD is calculated separately for all segments and is used to determine the amount of portfolio that may be subjected to credit risk at the moment of default. This figure is measured from outstanding loan amount considering expected changes and assuming that default occurs in the mid-year. Expected changes are the scheduled principal repayments till the forecasted overdue date and interest accrued from overdue date till the date when the loan becomes default.

Prepayment rate calculated on historical data is also considered and it reduces outstanding balance till the default date (It is used in calculations if only the average maturity of the loan exceeds 12 months). Exposure at default is calculated for each year during the weighted average contractual maturity of the portfolio.

INTEREST INCOME RECOGNITION

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

FINANCIAL LIABILITIES

In according to IFRS 9 financial liabilities could be classified for one of these categories – “Financial liability at fair value through profit or loss” and “Other financial liabilities”. The Company has estimated which business model was sufficiant to the Company’s financial liabilities and has classified them as “Other financial liabilities”.

The Company's other financial liabilities comprise of other liabilities and borrowings.

Other financial liabilities are initially recognised at fair value plus transaction costs that are directly attributable to their release. The liabilities of such interest are subsequently recorded at amortized cost using the effective interest rate method which ensures accrual of interest on the carrying amount of the financial liability at constant rate. Interest expenses for any financial liability include the initial transaction costs and any additional charges for the redemption of the obligation.

FINANCIAL LIABILITIES MODIFICATION

Other financial liabilities are initially recognised at fair value plus transaction costs that are directly attributable to their release. The liabilities of such interest are subsequently recorded at amortized cost using the effective interest rate method which ensures accrual of interest on the carrying amount of the financial liability at constant rate. Interest expenses for any financial liability include the initial transaction costs and any additional charges for the redemption of the obligation.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, company recalculates the gross carrying amount of the financial liability and recognises a *modification gain or loss* in profit or loss. The gross carrying amount of the financial liability is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial liability’s original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial liability).

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company adjusts carrying amount of the modified financial liability by any costs or fees incurred. and amortise it over the remaining term of the modified financial liability.

The Company uses 10 % test for determination weather financial liability should be derecognized or not. Company compares Initial financial liability's discounted cash flows to new financial liabilities discounted cash flows. If difference between discounted cash flows is less than 10%, the Company assumes that change is modification and there is no need of derecognition of initial financial liability.

Offsetting of financial assets and 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.

Derecognition of financial assets and liabilities

The Company derecognises financial assets when, and only when, when the rights to receive cash flows from the contract expires or these rights shall be transferred to the other party along with all risks and benefits related to the right of ownership. Any share in the financial asset which is retained by the Company shall be recognized as a separate asset or liability.

The Company derecognises financial liabilities when, and only when, the Company'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 other comprehensive income.

FAIR VALUE MEASUREMENT

IFRS 7 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 (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

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.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments included in financial assets at fair value through profit or loss or loss in the statement of financial position comprise foreign currency forward contracts and currency swaps.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. All derivatives are carried as financial assets when their fair value is positive and as financial liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BORROWED FUNDS

Borrowed funds are initially recognised at fair value. Subsequently they are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings, using the effective interest method.

LEASES

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.

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 (as is typically the case) this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognised where the Company is contractually required to dismantle, remove or restore the leased asset.

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 Company 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 updated discount rate that applied on lease commencement. 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. 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.

SHARE CAPITAL, SHARE PREMIUM AND DIVIDENDS

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When share capital is increased, any difference between the registered amount of share capital and the fair value of actual consideration received is recognized as share premium.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

REPOSSESSED COLLATERAL

Repossessed collateral represents non-financial assets acquired by the Company in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in property and equipment, investment property or inventories within other assets depending on their nature and the intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

All property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Property and equipment are depreciated on a straight-line basis over expected useful lives. Residual values are not considered.

Company's intangible assets primarily include capitalized computer software. They are stated at historical cost less accumulated amortization. Intangible assets are amortized on a straight-line basis over expected useful lives.

Below are given relevant useful lives of property, equipment and intangible asset, which are used for depreciation/amortization calculations purposes.

Group	Useful life (year)
Leasehold improvements	3-9
Furniture	3-7
IT equipment	1-7
Vehicles	5
Furniture	7-10
Intangible Assets	7-10

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

A reversal of an impairment loss is recognized immediately in statement of comprehensive income.

CURRENT AND DEFERRED INCOME TAX

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

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

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 realized 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.

RECOGNITION OF INTEREST INCOME AND EXPENSE

Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed based on the actual service provided as a proportion of the total services to be provided.

Additional information for recognition of interest income is disclosed above, in the article **“INTEREST INCOME RECOGNITION”.**

STAFF COSTS AND RELATED CONTRIBUTIONS

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

RECOGNITION OF OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses are recognized 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.

Operating and administrative 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.

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are events before the date of financial statements authorization for issue that provide additional information about the Company’s financial statements are reported in the financial statements. Events after the reporting period that do not affect the financial position of the Company at the balance sheet date are disclosed in the Notes to the financial statements when material.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities are not reflected in the financial statements, except for the cases when the outflow of economic benefits is likely to begin and the amount of such liabilities can be reliably measured. The information on contingent liabilities is disclosed in the Notes to the financial statements except for cases when the outflow of economic benefits is unlikely.

Contingent assets are not reflected in the financial statements, but the information on them is disclosed when

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

inflow of economic benefits is possible. If economic benefits are sure to occur, an asset and related income are recognized in the financial statements for the period, when the evaluation change occurred.

A provision is a liability of uncertain timing or amount. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation. A legal obligation is an obligation that derives from:

(a) A contract (through its explicit or implicit terms);

(b) Legislation; or

(c) Other operation of law.

A constructive obligation is an obligation that derives from an entity's actions where:

(a) By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities