

**JSC MICROFINANCE ORGANIZATION
GEORGIAN CREDIT**

Financial Statements

Together with the Independent Auditor's
Report

For the year ended 31 December 2022

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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 2022, 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 2022, 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.

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.

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

14 June 2023

INDEPENDENT AUDITOR'S REPORT

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- 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.
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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

14 June 2023

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

(In GEL

	Note	2022	2021*
Interest income	5	6,104,413	6,927,500
Interest expense	5	(3,646,900)	(4,286,390)
Net interest income		2,457,513	2,641,110
Changes in expected credit losses	6	(1,564,556)	(890,163)
Net interest income after expected credit losses		892,957	1,750,947
Penalties and commission income	7	263,708	308,941
Other income	8	20,804	2,318,142
Staff costs including salaries and bonuses		(2,699,597)	(2,863,090)
General and administrative expenses	9	(811,741)	(894,523)
Depreciation and amortization	14, 15, 16	(649,812)	(767,314)
Change in repossessed collaterals, net	13	(280,614)	152,931
Net loss from financial instruments at fair value through profit or loss	18	(1,080,462)	(241,971)
Gain from exchange rate differences, net		1,115,611	101,627
Loss before income tax		(3,229,146)	(134,310)
Income tax expense	10	-	(326,180)
Total comprehensive loss for the year		(3,229,146)	(460,490)

*Restated - For details refer to Note 20

Financial Statements for the year ended 31 December 2022 were approved on behalf of the Management on 14 June 2023 by:

Executive Director



G. Samadashvili

The notes on pages 9-45 form an integral part of these financial statements.

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

(In GEL

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Executive Director

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The notes on pages 9-45 form an integral part of these financial statements.

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

(In GEL)

	Note	31 December 2022	31 December 2021*
Assets			
Cash and cash equivalents	11	602,646	407,298
Loans to customers	12	18,021,974	20,199,683
Other assets	13	5,474,949	6,631,193
Intangible assets	14	302,454	284,422
Right of use assets	15	1,056,447	937,426
Property and equipment	16	175,452	259,525
Total assets		25,633,922	28,719,547
Liabilities and equity			
Liabilities			
Borrowings	17	14,848,271	19,172,428
Subordinated borrowings	17	3,006,470	-
Lease liabilities	15	1,095,007	1,070,491
Other liabilities	18	1,393,638	1,484,130
Total liabilities		20,343,386	21,727,049
Equity			
Share capital	19	6,145,568	5,506,503
Share premium	19	5,827,501	5,827,501
Other reserve	19	1,603,720	715,601
Accumulated losses		(8,286,253)	(5,057,107)
Total equity		5,290,536	6,992,498
Total liabilities and equity		25,633,922	28,719,547

*Restated - For details refer to Note 20

The notes on pages 9-45 form an integral part of these financial statements.

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2022

(In GEL)

	Share capital	Share premium	Other reserve	Accumulated losses	Total
Balance at 31 December 2020	1,815,568	5,827,501	-	(4,596,617)	3,046,452
Issue of shares (Note 17)	3,690,935	-	-	-	3,690,935
Total comprehensive loss	-	-	-	(460,490)	(460,490)
Benefit from restructuring agreement (Note 17)	-	-	715,601	-	715,601
Balance at 31 December 2021	5,506,503	5,827,501	715,601	(5,057,107)	6,992,498
Issue of shares (Note 18)	639,065	-	-	-	639,065
Total comprehensive loss	-	-	-	(3,229,146)	(3,229,146)
Benefit from restructuring agreement (Note 17)	-	-	888,119	-	888,119
Balance at 31 December 2022	6,145,568	5,827,501	1,603,720	(8,286,253)	5,290,536

The notes on pages 9-45 form an integral part of these financial statements.

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(In GEL)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss before income tax	(3,229,146)	(134,310)
Adjustments for:		
Provision for loan impairment	1,564,556	890,163
Depreciation and amortization	649,812	767,314
Foreign exchange rate differences	(1,115,611)	(101,627)
Net loss from financial instruments at fair value through profit or loss	1,080,462	241,971
Change in repossessed collaterals, net	280,614	(152,931)
Interest income	(6,104,413)	(6,927,500)
Interest expense	3,646,900	4,286,390
Benefit from restructuring agreement	-	(2,300,078)
Cash outflow from operating activities before changes in operating assets and liabilities	(3,226,826)	(3,430,608)
Decrease/(increase) in operating assets:		
Loans to customers	956,396	4,984,249
Other assets	868,958	(496,991)
Increase/(decrease) in operating liabilities:		
Amounts received from local financial institution	-	5,554,207
Other liabilities	(524,934)	828,041
Cash inflow (outflow) from operating activities before interest and taxation	(1,926,406)	7,438,898
Interest paid on lease liabilities	(60,408)	(106,257)
Interest paid on borrowings and forward agreements	(3,022,986)	(3,795,190)
Interest received	5,648,809	6,827,256
Net cash outflow from operating activities	639,009	10,364,707
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(28,560)	(29,680)
Purchase of intangible assets	(85,932)	(20,295)
Net cash outflow from investing activities	(114,492)	(49,975)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Received (paid) borrowings, net	2,276,211	(10,553,432)
Principal paid on lease liabilities	(497,204)	(501,510)
Net cash inflow (outflow) from financing activities	1,779,007	(11,054,942)
Net increase/(Decrease) in cash and cash equivalents	2,303,524	(740,210)
Cash and cash equivalents at the beginning of the period	407,298	2,727,013
Effect of exchange rate fluctuations on the cash and cash equivalents held in foreign currencies	(2,108,176)	(1,579,505)
Cash and cash equivalents at the end of the year	602,646	407,298

The notes on pages 9-45 form an integral part of these financial statements.

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

(In GEL)

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 six and seven branches as at 31 December 2022 and 2021, respectively.

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

As at 31 December 2022 the following shareholders owned the Company's shares:

Shareholders	Number of shares in 2022	Type	31 December 2022, %	Share capital GEL
Dr. Joerg Wulfken	1,737,496	Ordinary	28.28%	1,737,496
Frauenfinanztreuhand GmbH	1,089,832	Ordinary	17.74%	1,089,832
Gert Warneke	907,855	Ordinary	14.78%	907,855
Dr. Norbert Kranz	867,548	Ordinary	14.12%	867,548
Thomas Schiffler	814,074	Ordinary	13.25%	814,074
Other shareholders owning less than 10%	728,763	Ordinary	11.83%	728,763
	6,145,568		100.00%	6,145,568

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	1,737,496	Ordinary	31.56%	1,737,496
Frauenfinanztreuhand GmbH	1,089,832	Ordinary	19.80%	1,089,832
Dr. Norbert Kranz	867,548	Ordinary	15.76%	867,548
Thomas Schiffler	814,074	Ordinary	14.79%	814,074
Other shareholders owning less than 10%	997,553	Ordinary	18.09%	997,553
	5,506,503		100.00%	5,506,503

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

(In GEL)

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. It should be noted that the Company is facing some financial difficulties, in particular accumulated losses for the past several years.

Despite this fact, the Management believes that using going concern assumption is appropriate for the Company. The justifications are as follows:

- The Company signed a credit line agreement in the amount of GEL500 thousand with JSC Bank of Georgia in April 2023. As a result, the Company is able to manage the liquidity gap generated by appreciation of GEL exchange rate.
- In December 2022, the Company received waivers from international lenders regarding potential breaches in two of the covenants for 2022.
- The Company signed a new amendment to the Restructuring Agreement with the international lenders group (refer to Note 23), which entails further reduction of interest rates on the outstanding loans to 1% for the year 2023. This significantly improved company's prospects for 2023 with significant savings of interest expense payments.
- The senior loans of shareholders that were converted to subordinated debt in December of 2022, over GEL 3M in total, also had their interest rate reduced to 0% for 2023, which further improves the liquidity outlook for the year.
- The Company continues to actively sell its repossessed assets. Sales generated over GEL 1.3M cash inflow for the company in 2022, and by the of May 2023 the Company is in-line with the sales plan defined for the year.
- Modern Loan Origination software has been launched in October 2022, which further increased the cost-efficiency of the company's credit processes and its loan portfolio management.

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

STANDARDS AND AMENDMENTS MANDATORILY EFFECTIVE FROM 1 JANUARY 2022

Annual Improvements to IFRS: 2018-2020 Cycle. In May 2020, the IASB issued minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

Conceptual Framework for Financial Reporting (Amendments to IFRS 3). In May 2020, the IASB issued amendments to IFRS 3, which update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments introduce an exception to the general recognition requirement for liabilities and contingent liabilities acquired in a business combination that is within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFRIC 12 Service Concession arrangements.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment - Onerous Contracts - Cost of Fulfilling a Contract). In May 2020, the IASB issued amendments to IAS 37, added paragraph 68A to specify which costs an entity includes in determining the cost of fulfilling a contract for the purposes of assess whether the contract is onerous. These amendments are expected to result in more contracts being accounted for as onerous contracts because they increase the scope of costs that are included in the onerous contract assessment.

IAS 16 Property, Plant and Equipment (Amendment - Proceeds before Intended Use). In May 2020, the IASB issued amendments to IAS 16, which prohibit a company from deducting amounts received from selling items produced while the company is preparing the asset for its intended use from the cost of property, plant and equipment. Instead, a company will recognise such sales proceeds and any related costs in profit or loss rather than offset against the cost of the property.

2. BASIS OF PREPARATION (CONTINUED)

The Company is currently assessing the impact of these new accounting standards and amendments.

b) New standards, interpretations and amendments not yet effective

STANDARDS AND AMENDMENTS MANDATORILY EFFECTIVE FROM 1 JANUARY 2023

IFRS 17 Insurance Contracts. IFRS 17 introduces an internationally consistent approach to the accounting for insurance contracts. Prior to IFRS 17, significant diversity has existed worldwide relating to the accounting for and disclosure of insurance contracts, with IFRS 4 permitting many previous (non-IFRS) accounting approaches to continue to be followed. IFRS 17 will result in significant changes for many insurers, requiring adjustments to existing systems and processes.

The new standard takes the view that insurance contracts combine features of a financial instrument and a service contract, and that many generate cash flows that vary substantially over time. It therefore takes the approach of:

- Combining current measurement of future cash flows with recognising profit over the period that services are provided under the contract
- Presenting insurance service results (including insurance revenue) separately from insurance finance income or expenses, and
- Requiring an entity to make an accounting policy choice for each portfolio whether to recognise all insurance finance income or expenses for the reporting period in profit or loss, or to recognise some in other comprehensive income.

Subsequent to the issue of IFRS 17, amendments to the standard and deferral of effective dates have been made.

Disclosure of Accounting Policies (Amendment to IAS 1 and IFRS Practice Statement 2). In February 2021, the IASB issued amendments to IAS 1, which change the disclosure requirements with respect to accounting policies from 'significant accounting policies' to 'material accounting policy information'. The amendments provide guidance on when accounting policy information is likely to be considered material. The amendments to IAS 1 are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. As IFRS Practice Statements are non-mandatory guidance, no mandatory effective date has been specified for the amendments to IFRS Practice Statement 2.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12). In May 2021, the IASB issued amendments to IAS 12, which clarify whether the initial recognition exemption applies to certain transactions that result in both an asset and a liability being recognised simultaneously (e.g. a lease in the scope of IFRS 16). The amendments introduce an additional criterion for the initial recognition exemption under IAS 12.15, whereby the exemption does not apply to the initial recognition of an asset or liability which at the time of the transaction, gives rise to equal taxable and deductible temporary differences.

STANDARDS AND AMENDMENTS MANDATORILY EFFECTIVE FROM 1 JANUARY 2024

Lease Liability in a Sale and Leaseback (Amendment to IFRS 16). The IFRS Interpretations Committee issued an agenda decision in June 2020 - Sale and leaseback with Variable Payments. This matter was referred to the IASB for standard setting for some aspects. The IASB issued the final amendments in September 2022.

The Amendments provide a requirement for the seller-lessee to determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

IAS 1 Presentation of Financial Statements (Amendment - Classification of Liabilities as Current or Non-Current, Non-current Liabilities with Covenants). The IASB issued amendments to IAS 1 - Classification of Liabilities as Current or Non-current in January 2020, which have been further amended partially by amendments Non-current Liabilities with Covenants issued in October 2022.

The amendments require that an entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement for at least twelve months after the reporting period.

2. BASIS OF PREPARATION (CONTINUED)

If an entity's right to defer is subject to the entity complying with specified conditions, such conditions affect whether that right exists at the end of the reporting period, if the entity is required to comply with the condition on or before the end of the reporting period and not if the entity is required to comply with the conditions after the reporting period. The amendments also provide clarification on the meaning of 'settlement' for the purpose of classifying a liability as current or non-current

As a result of the COVID-19 pandemic, the Board deferred the effective date of the amendments by one year to annual reporting periods beginning on or after 1 January 2024.

The Company does not think these changes will have material effect on the Company financial statements.

Other

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

3. CRITICAL ACCOUNTING ESTIMATES AND 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

(In GEL)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Useful lives of property and equipment. Property and equipment are depreciated or amortised over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.

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 2022	31 December 2021
Cash and cash equivalents	602,646	407,298
Loans to customers	18,021,974	20,199,683
Borrowings	14,848,271	19,172,428
Subordinated borrowings	3,006,470	-
Other liabilities	823,330	1,252,273
Lease liabilities	1,095,007	1,070,491

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 policies 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

(In GEL)

4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (CONTINUED)

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.

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

	31 December 2022	31 December 2021
Cash and cash equivalents (excluding cash on hand)	481,060	308,880
Loans to customers	18,021,974	20,199,683
Total credit risk exposure	18,503,034	20,508,563

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 2022 and 2021.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

(In GEL)

4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (CONTINUED)

The Company's exposure to foreign currency exchange rate risk as at 31 December 2022 is presented in the table below:

Financial assets	GEL	USD	EUR	Total
Cash and cash equivalents*	247,646	7,446	347,554	602,646
Loans to customers**	17,647,678	358,468	15,828	18,021,974
Total financial assets	17,895,324	365,914	363,382	18,624,620
Financial liabilities				
Borrowings	266,975	7,620,641	6,960,655	14,848,271
Subordinated borrowings	-	900,938	2,105,532	3,006,470
Lease liabilities	-	1,095,007	-	1,095,007
Other liabilities	113,708	-	-	113,708
Total financial liabilities	380,683	9,616,586	9,066,187	19,063,456
Open balance sheet position	17,514,641	(9,250,672)	(8,702,805)	(438,836)
*	GEL	USD	EUR	Total
Restricted cash in banks	-	-	2,267,882	2,267,882
Borrowings collateralised with restricted cash in banks	2,269,994	-	-	2,269,994
Forward contracts	-	8,877,554	6,531,595	15,409,149
**	GEL	USD	EUR	Total
Loans to customers including impairment allowance	21,595,191	600,719	38,397	22,234,307
Impairment allowance	(3,947,513)	(242,251)	(22,569)	(4,212,333)

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
*	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 contracts	-	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)

* For details about bank deposits and borrowings collateralized with bank deposits refer to Note 18.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

(In GEL)

4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (CONTINUED)

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 2022		31 December 2021	
	+20%	-20%	+20%	-20%
Currency rate sensitivity				
USD impact	(74,624)	74,624	(217,436)	217,436
EUR impact	19,334	(19,334)	40,688	(40,688)
Total net impact	(55,290)	55,290	(176,748)	176,748

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 2022 can be presented as follows:

Financial liabilities	Up to 1 month	1 month to 3 months	3 months to 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Borrowings	186,175	164,810	741,699	11,748,928	3,474,056	-	16,315,668
Subordinated borrowings	-	-	-	73,371	575,797	4,290,595	4,939,763
lease liabilities	33,094	66,188	303,923	405,231	405,231	-	1,213,667
Other liabilities	823,330	-	-	-	-	-	823,330
	1,042,599	230,998	1,045,622	12,227,530	4,455,084	4,290,595	23,292,428

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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

(In GEL)

4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (CONTINUED)

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 7 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.

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 2022 and 2021, respectively.

5. NET INTEREST INCOME

Net interest income can be presented as follows:

	2022	2021
<i>Interest income on financial assets recorded at amortized cost comprise:</i>		
Loans to customers	6,094,015	6,907,192
Bank accounts	10,398	20,308
Total interest income	6,104,413	6,927,500
<i>Interest expense on financial liabilities recorded at amortized cost comprise:</i>		
Borrowings and subordinated borrowings	(2,539,462)	(3,147,405)
Foreign currency forward contract expenses	(1,047,030)	(1,032,728)
Lease liabilities	(60,408)	(106,257)
Total interest expense	(3,646,900)	(4,286,390)
Net interest income	2,457,513	2,641,110

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6. CHANGES IN EXPECTED CREDIT LOSSES

Movements in the loan impairment allowance for the year ended 31 December 2022 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 2022	507,453	749,466	3,590,441	4,847,360
New loans issued	418,013	-	-	418,013
Transfer to Stage 1	67,165	(42,549)	(24,616)	-
Transfer to Stage 2	(808,287)	872,498	(64,211)	-
Transfer to Stage 3	(24,616)	(1,781,875)	1,806,491	-
Repaid loans	(309,592)	(123,645)	(1,438,948)	(1,872,185)
Write off for the year	-	-	(2,300,790)	(2,300,790)
Recoveries of previously written off	-	-	101,207	101,207
Changes due to change in credit-risk	576,121	911,491	1,531,116	3,018,728
Balance at 31 December 2022	426,257	585,386	3,200,690	4,212,333

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 2021	507,453	749,466	3,590,441	4,847,360

Movements in the gross amount of issued loans for the year ended 31 December 2022 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 2022	13,111,888	5,359,729	6,575,426	25,047,043
New loans issued	18,864,864	-	-	18,864,864
Transfer to Stage 1	1,019,382	(675,254)	(344,128)	-
Transfer to Stage 2	(3,502,228)	4,015,067	(512,839)	-
Transfer to Stage 3	(344,128)	(3,370,396)	3,714,524	-
Repaid loans	(17,173,932)	(1,681,384)	(633,854)	(19,489,170)
Write off for the year	-	-	(2,300,791)	(2,300,791)
Recoveries of previously written off	-	-	-	-
Foreign exchange rate movement	50,548	26,888	34,925	112,361
Balance at 31 December 2022	12,026,394	3,674,650	6,533,263	22,234,307

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FOR THE YEAR ENDED 31 DECEMBER 2022

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6. CHANGES IN EXPECTED CREDIT LOSSES (CONTINUED)

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)
Foreign exchange rate 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

7. PENALTIES AND COMMISSION INCOME

Penalties and commission income includes penalties on early payments, actual penalties on overdue days and other service commission fees, which in 2022 and 2021 amounted GEL263,708 and GEL308,941, respectively.

8. OTHER INCOME

Other income can be presented as follows:

	2022	2021
Benefit from restructuring agreement *	-	2,300,078
Rent modifications	5,458	18,064
Other	15,346	-
	20,804	2,318,142

*Details of benefit from restructuring loan agreement is presented in Note 17.

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9. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses can be presented as follows:

	2022	2021
Professional services*	(199,656)	(198,185)
Software maintenance	(99,977)	(42,900)
Utilities	(81,208)	(87,759)
Communication expenses	(79,814)	(76,796)
Taxes other than income tax	(70,870)	(81,192)
Office maintenance	(64,039)	(106,171)
Business trips and representative expenses	(61,449)	(42,788)
Fuel	(50,413)	(39,768)
Court related expenses	(46,624)	(63,845)
Bank fees	(30,284)	(58,704)
Stationary	(14,406)	(22,046)
Other expenses	(13,001)	(74,369)
	(811,741)	(894,523)

*Audit fee in the year 2022 amounted GEL43,653 (2021: GEL44,326)

10. INCOME TAX EXPENSE AND DEFERRED TAX ASSET

On 27 December 2022, Georgian law was published that made an amendment into the Tax Code of Georgia. It came into the force from 1 January 2023. The mentioned amendments have following effects on the companies operating in financing sector: before the amendment, according to the Tax Code of Georgia, it was determined that banking institutions, credit unions, microfinance organizations and loan providers would be taxed under the new (Estonian) corporate income tax (CIT) regime from January 1, 2023. The amendment stipulated that the time schedule will no longer be established and in the future these entities will be taxed again according to the old CIT regime, namely according to the difference between the gross income gained during a calendar year and the deductions according to GTC (Article 97, Paragraph 12).

Also, a new section 4 was added to the Article 98 of GTC, which determines CIT rate, according to which the taxable profit of a banking institution, credit union, microfinance organization and loan provider shall be taxed at the rate of 20%.

Although, taxation will be done according to the so-called old regime of CIT, the method of recognition of income and expenses determined by the GTC for the financial sector has been changed. In particular, the new section 5 has been added to the article 142 of GTC, that defines the moment of earning of income under the accrual method. According to this amendment from 1 January 2023, banking institutions, credit unions and microfinance organizations shall recognize interest income accrued on loans in accordance with International Financial Reporting Standards (IFRS). As for the deduction of allocations to reserve funds, according to the updated Article 109 of the GTC, from 1 January 2023, the mentioned persons will deduct the reserves for possible loan losses from the gross income according to the International Financial Reporting Standards (IFRS), instead of the rule established by the National Bank of Georgia.

The abovementioned changes in Georgian legislation did not have effect on the Company, as in 2021, the Company fully wrote off its deferred tax asset. According to the Company judgment, due to its material tax losses deferred tax asset would not be used or recovered in the future periods.

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FOR THE YEAR ENDED 31 DECEMBER 2022

(In GEL)

10. INCOME TAX EXPENSE AND DEFERRED TAX ASSETS (CONTINUED)

Deferred tax asset in 2021 can be presented as follows:

	2021
At 1 January	326,180
Recognized in profit and loss	
Income tax benefit	153,017
Derecognized deferred tax assets	(479,197)
At 31 December	-

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)

Income tax expense can be presented as follows:

	2021
Current tax	-
Derecognized deferred tax assets	(479,197)
Effect of temporary differences	153,017
	(326,180)

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

	2021
Loss before income tax	(134,310)
Applicable tax rate	15%
Theoretical income tax	20,147
Derecognized deferred tax assets	(479,197)
Effect of permanent differences	132,870
	(326,180)

NOTES TO THE FINANCIAL STATEMENTS

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11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be presented as follows:

	31 December 2022	31 December 2021
Cash on hand	121,586	98,418
Cash on current accounts with banks in GEL	148,546	205,678
Cash on current accounts with banks in other currencies	332,514	103,202
	602,646	407,298

None of the balances of cash and cash equivalents are past due. No loss allowance is recognized for balances with banks due to short-term nature.

Additional information about the currency and liquidity of cash and cash equivalents are disclosed in the Note 4.

12. LOANS TO CUSTOMERS

Loans to customers can be presented as follows:

	31 December 2022	31 December 2021
Principal	20,054,073	22,608,863
Interest	2,180,234	2,438,180
Impairment allowance	(4,212,333)	(4,847,360)
	18,021,974	20,199,683

Portfolio distribution as at 31 December 2022, by loan type is as follows:

31 December 2022	Gross Amount	ECL				Net Amount	ECL %
		Stage 1	Stage 2	Stage 3	Total ECL		
Agro Loan	12,834,001	(220,832)	(389,706)	(1,899,025)	(2,509,563)	10,324,438	19.55%
Business Loan	7,643,740	(193,108)	(165,150)	(1,186,396)	(1,544,654)	6,099,086	20.21%
Consumer Loan	1,697,313	(12,317)	(30,530)	(115,269)	(158,116)	1,539,197	9.32%
Pawnshop Loan	59,253	-	-	-	-	59,253	0.00%
	22,234,307	(426,257)	(585,386)	(3,200,690)	(4,212,333)	18,021,974	18.95%

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

31 December 2021	Gross Amount	ECL				Net Amount	ECL %
		Stage 1	Stage 2	Stage 3	Total 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%

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

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

Fair value of loans to customers is not materially different from its book value.

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

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12. LOANS TO CUSTOMERS (CONTINUED)

Analysis by credit quality of loans outstanding at 31 December 2022 is as follows:

Agro Loan

31 December 2022	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	7,588,204	351,240	7,939,444	(364,534)	7,574,910	4.59%
-overdue less than 31 days	508,247	40,574	548,821	(55,698)	493,123	10.15%
-overdue 31-60 days	229,379	31,391	260,770	(52,913)	207,857	20.29%
-overdue 61-90 days	374,797	80,472	455,271	(137,393)	317,878	30.18%
-overdue more than 90 days	2,763,814	865,881	3,629,695	(1,899,025)	1,730,670	52.32%
	11,464,441	1,369,558	12,834,001	(2,509,563)	10,324,438	19.55%

Business Loan

31 December 2022	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	4,718,556	127,752	4,846,308	(257,554)	4,588,754	5.31%
-overdue less than 31 days	571,995	49,814	621,809	(74,403)	547,406	11.97%
-overdue 31-60 days	65,801	2,522	68,323	(15,324)	52,999	22.43%
-overdue 61-90 days	79,977	8,891	88,868	(10,977)	77,891	12.35%
-overdue more than 90 days	1,519,297	499,135	2,018,432	(1,186,396)	832,036	58.78%
	6,955,626	688,114	7,643,740	(1,544,654)	6,099,086	20.21%

Consumer Loan

31 December 2022	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	1,205,023	27,331	1,232,354	(35,698)	1,196,656	2.90%
-overdue less than 31 days	72,121	3,494	75,615	(2,925)	72,690	3.87%
-overdue 31-60 days	7,782	244	8,026	(738)	7,288	9.20%
-overdue 61-90 days	19,198	439	19,637	(3,487)	16,150	17.76%
-overdue more than 90 days	270,907	90,774	361,681	(115,268)	246,413	31.87%
	1,575,031	122,282	1,697,313	(158,116)	1,539,197	9.32%

Pawnshop Loan

31 December 2022	Principal	Interest	Gross Amount	ECL	Net Amount	ECL %
-no overdue	58,973	280	59,253	-	59,253	0.00%
	58,973	280	59,253	-	59,253	0.00%

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%

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FOR THE YEAR ENDED 31 DECEMBER 2022

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12. LOANS TO CUSTOMERS (CONTINUED)

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%

Loans with collaterals and without collaterals outstanding at 31 December 2022 can be presented as follows:

31 December 2022	Gross Amount	ECL	Net Amount	ECL %
Collateralized Loans	12,423,753	(3,138,631)	9,285,122	25.26%
Uncollateralized Loans	9,810,554	(1,073,702)	8,736,852	10.94%
	22,234,307	(4,212,333)	18,021,974	18.95%

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%

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12. LOANS TO CUSTOMERS (CONTINUED)

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

<i>Collateral Type</i>	31 December 2022	31 December 2021
Real Estate	7,096,515	7,748,039
Personal	5,247,300	10,170,527
Jewelry	59,254	83,361
Machinery	20,684	192,983
	12,423,753	18,194,910

13. OTHER ASSETS

Other assets can be presented as follows:

	31 December 2022	31 December 2021
Reposessed collaterals*	5,416,231	6,517,167
Prepayments	145,582	152,363
Other	58,718	100,087
Impairment of prepayments	(145,582)	(138,424)
	5,474,949	6,631,193

*As at 31 December 2022 and 2021 the movements of the balance of reposessed collaterals can be presented as follows:

	2022	2021
1 January	6,517,167	5,837,170
Additions	233,691	1,687,324
Disposals	(884,066)	(749,246)
Impairment	(450,561)	(258,081)
31 December	5,416,231	6,517,167

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

	2022	2021
Gain at initial recognition	106,407	363,999
Impairment of reposessed collaterals	(450,561)	(258,081)
Net gain on sale of reposessed collaterals	63,540	47,013
	(280,614)	152,931

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14. INTANGIBLE ASSETS

Intangible assets can be presented as follows:

Historical cost	Accounting and other software	Other intangible assets	Total
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
Additions	84,316	1,616	85,932
Historical cost 31.12.2022	571,206	44,517	615,723
Accumulated amortization			
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)
Amortization	(65,436)	(2,464)	(67,900)
Accumulated amortization 31.12.2022	(299,896)	(13,373)	(313,269)
Net book value			
Net book value 31.12.2021	252,430	31,992	284,422
Net book value 31.12.2022	271,310	31,144	302,454

15. LEASES

The Company leases a head office and six (2021: head office and seven) service centres around Georgia. Rent for these spaces is fixed over the lease term and are denominated in USD. The lease term is defined as 3 years (2021: 2 years). The incremental borrowing rate for 2022 was 8.02% per annum in terms of lease terms and currency (2021: 7.47%-7.92%).

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

	Head office and branches
At 31 December 2020	1,457,836
Disposal	(52,086)
Modification	123,048
Depreciation	(591,372)
At 31 December 2021	937,426
Disposal	(93,868)
Modification to increase lease term	694,580
Depreciation	(481,691)
At 31 December 2022	1,056,447

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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15. LEASES (CONTINUED)

Lease liabilities can be presented as follows:

	Head office and branches
At 31 December 2020	1,852,042
Effect of modification to lease terms	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
Effect of modification to lease terms	694,580
Interest expense	60,408
Lease payments	(557,612)
Disposal	(99,326)
Foreign exchange movements	(73,534)
At 31 December 2022	1,095,007

16. PROPERTY AND EQUIPMENT

Property and equipment can be presented as follows:

	Leasehold improvements	Furniture and office equipment	Computer and communication equipment	Vehicles	Total
Historical cost					
Historical cost 31.12.2020	268,479	434,784	790,458	88,233	1,581,954
Additions	-	-	29,680	-	29,680
Disposals	(103,902)	-	(5,893)	-	(109,795)
Historical cost 31.12.2021	164,577	434,784	814,245	88,233	1,501,839
Additions	-	9,271	19,289	-	28,560
Disposals	-	-	-	(36,200)	(36,200)
Historical cost 31.12.2022	164,577	444,055	833,534	52,033	1,494,199
Accumulated depreciation					
Accumulated depreciation 31.12.2020	(124,977)	(317,891)	(766,733)	(32,770)	(1,242,371)
Depreciation for the year	(19,219)	(52,386)	(30,246)	(7,887)	(109,738)
Accumulated depreciation of disposals	103,902	-	5,893	-	109,795
Accumulated depreciation 31.12.2021	(40,294)	(370,277)	(791,086)	(40,657)	(1,242,314)
Depreciation for the year	(46,324)	(28,982)	(20,909)	(4,006)	(100,221)
Accumulated depreciation of disposals	-	-	-	23,788	23,788
Accumulated depreciation 31.12.2022	(86,618)	(399,259)	(811,995)	(20,875)	(1,318,747)
Net book value					
Net book value 31.12.2021	124,283	64,507	23,159	47,576	259,525
Net book value 31.12.2022	77,959	44,796	21,539	31,158	175,452

NOTES TO THE FINANCIAL STATEMENTS

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17. SUBORDINATED AND OTHER BORROWINGS

Borrowings can be presented as follows:

	31 December 2022	31 December 2021
Current	379,527	245,955
Non-current*	17,475,214	18,926,473
	17,854,741	19,172,428

Non-current borrowings include subordinated borrowings from related parties (shareholders) in amount of GEL3,006,470 equivalent nominated in EUR and USD. According to updated agreements that were signed in December 2022 some shareholders loans were converted into subordinated borrowings. The contract terms are favorable for the Company in terms of reduced interest payments. The benefit that the Company received from shareholders amount GEL888,119 and is presented in capital as other reserve. The maturity of these borrowings is January 2030.

Subordinated borrowings are unsecured loans that rank below other, more senior loans with respect to claims on assets or earnings. In the case of borrower default, creditors who own subordinated debt will not be paid out until after senior creditors are paid in full.

Principal balance and accrued interest can be presented as follows:

	31 December 2022	31 December 2021
Principal balance	17,475,214	18,926,473
Accrued interest*	379,527	245,955
	17,854,741	19,172,428

As of 31 December 2022 Borrowings can be presented as follows:

	Interest rate	Currency	31 December 2022
Non-resident financial institutions	5%-8.5%	USD-EUR	13,658,465
Shareholders	5.5%-14%	GEL-USD-EUR	4,073,520
Foreign currency forward contract accrued expense		USD-EUR	122,756
			17,854,741

As of 31 December 2021 Borrowings can be presented as follows:

	Interest rate	Currency	31 December 2021
Non-resident financial institutions	5.5%-12%	USD-EUR	15,710,078
Shareholders	5%-15%	GEL-USD-EUR	3,462,350
			19,172,428

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 was converted to share capital.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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17. SUBORDINATED AND OTHER BORROWINGS (CONTINUED)

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

There is a regular communication between the lenders and the Company regarding the covenants. The Company did not satisfy capital adequacy ratio and cost to income ratio at the end of 2022. The loans were subject of significant risk as a result of the breach. The Company had communication about this case in 2022 with financial institutions and got waiver from the creditors for the breaches before the reporting date. According to the waiver, the creditors do not require early repayment of loans. As a result the Company classified the borrowings according to their contractual terms.

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

The Company signed a new restructuring agreement in January 2023. For details refer to Note 23.

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

	31 December 2022	Nominal interest rate 31 December 2021	With effective interest 31 December 2021
Invest in Visons GmbH on behalf of HANSAINVEST GmbH Investment for the account of IIV Mikrofinanzfonds	2,083,812	2,633,710	2,573,822
BANKIM BISTUM ESSEN eG (on behalf of KCD Mikrofinanzfonds (ETSI - Global)	2,504,582	3,042,896	2,972,544
Microfinance Enhancement Facility SA SICAV-SIF	2,125,608	2,532,740	2,467,499
GLS ALTERNATIVE INVESTMENTS SICAV-Mikrofinanzfonds	1,970,013	2,244,174	2,171,724
Triple Jump Innovation Fund B.V	1,951,772	2,263,238	2,192,825
SME Finance-Loans for Growth Fund	-	13,767	13,767
INVEST IN VISIONs GmbH	1,485,343	1,701,406	1,650,129
EMF Microfinance Fund AGmV	490,563	564,479	546,366
MCE Social Capital	1,046,771	1,144,216	1,121,402
	13,658,464	16,140,626	15,710,078

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

NOTES TO THE FINANCIAL STATEMENTS

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17. 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:

	2022	2021
1 January	19,172,428	37,599,498
Cash flows		
Received (paid) loans, net	2,276,211	(10,553,432)
Interest paid	(1,975,956)	(2,762,462)
Non-cash flows		
Interest accrual	2,539,462	3,147,405
Transfer to share capital	-	(3,690,935)
Benefit from restructuring agreements with shareholders	(888,119)	(3,015,679)
Foreign exchange gain	(3,269,285)	(1,551,967)
31 December	17,854,741	19,172,428

18. OTHER LIABILITIES

Other liabilities can be presented as follows:

	31 December 2022	31 December 2021
Liability to increase share capital*	-	642,147
Received advances**	570,308	231,857
Accounts payable to employees	70,141	145,478
Taxes payable***	29,223	19,542
<i>Derivative financial instruments*****</i>		
“Back to back loans”	2,112	134,998
Forward contracts	678,287	241,971
Other liabilities	43,567	68,137
	1,393,638	1,484,130

* Liability to increase share capital represented 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. National Bank of Georgia approved registration in 2022.

**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 GEL1,609 thousand (2021: GEL695 thousand). Reconciliation of received advances can be presented as follows:

	2022
1 January	231,857
Cash payment	1,352,007
Sales	(1,013,556)
31 December	570,308

***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 2022 and 2021 the Company presents tax assets and liabilities on a net basis.

18. OTHER LIABILITIES (CONTINUED)

*****Derivative financial instruments

“Back to back loans”

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.

Forward contracts

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 or EUR/GEL exchange forward contract with a local commercial banks.

Forward contract balance as at 31 December 2022 amounted USD 2,800,000 and EUR2,278,400 (2021: USD2,800,000) which means that the Company has to repurchase GEL15,409,149 (2021: GEL8,965,522) as the contract matures. The Company has forward contract guarantee amounts blocked by the banks with amount GEL644 thousand. The Company determined that these assets and liabilities qualify set off criteria as a result Forward contract liabilities were set off with respective "cash covers".

Net loss on these financial instruments derived after the Company calculated fair value amounted GEL1,080,462 (2021: GEL241,971)

19. SHARE CAPITAL, SHARE PREMIUM AND OTHER RESERVE

The Company's share capital as at 31 December 2022 and 2021 comprise of 6,145,568 and 5,506,503 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 GEL639,065 in 2022 (2021: GEL3,690,935).

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 GEL1,603,720 represents benefit received from forgiving loan principal and interest in 2021 (GEL715,601) as well benefit generated from reduced interest rates according to shareholder loan agreements (GEL888,119). 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.

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20. PRIOR YEAR ERROR

The Company discovered a mechanical error in 2021 financial statements, fair value of forward contracts was mistakenly calculated to be an asset when it should have been a liability. As such the Management of the Company decided to restate certain comparative information for financial statements which can be presented below:

Financial Statement Area	31 December 2021	Adjustment	31 December 2021 Restated
Other assets	6,873,164	(241,971)	6,631,193
Other liabilities	1,242,159	241,971	1,484,130
Net loss on financial instruments at fair value through profit or loss	-	(241,971)	(241,971)
Gain from exchange rate differences, net	343,598	(241,971)	101,627

The abovementioned error had effect only 2021 financial information.

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 year of 2022. In 2021 the Company was in compliance with the requirements of NBG 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.

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 rise to any further obligation other than already recorded and the Company's tax positions will be sustained.

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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 2022:

Financial statement caption	Shareholders	Key management personnel	Total as per the financial statements caption
Borrowings	1,067,050	-	14,848,271
Subordinated borrowings	3,006,470	-	3,006,470
Interest expense	(200,768)		(3,646,900)
Staff costs including salaries and bonuses		248,420	(2,699,597)

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

23. EVENTS AFTER THE REPORTING PERIOD

In January 2023 the Company updated some terms of restructuring agreement. According to the restructuring agreement each creditor agreed to set the interest rate payable on its loan(s) to 1% per annum for the period beginning on 1 January 2023 to (and including) 31 December 2023.

After this period interest on each Creditor’s Loan(s) will accrue and be payable at the full rate of ordinary interest due to covering date stipulated in Loan Agreement.

The Company signed a credit line agreement in the amount of GEL500 thousand with JSC Bank of Georgia in April 2023.

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FOR THE YEAR ENDED 31 DECEMBER 2022

(In GEL)

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 2022	2.7020	2.8844
Exchange rate as at 31 December 2021	3.0976	3.5040

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).

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).

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 from 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.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 assessed 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 4 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).

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24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 used to determine the amount of losses that may arise in case of default. In order to calculate loss given default, the Company uses loan amounts that were defaulted during last 4 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.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 sufficient 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).

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.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, OTHER RESERVE 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.

Other reserve is a benefit, that the Company received from shareholders as a result of reduced interest rates and waiving part of loan liabilities according to loan restructuring agreements. Benefit from reduced interest rates represents the difference between nominal and fair values of borrowings

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

REPOSSESSED COLLATERAL

Reposessed 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.

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.

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24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Group	Useful life (year)
Leasehold improvements	3-9
Furniture	3-7
IT equipment	2-7
Vehicles	5
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.

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.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

24. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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