JSC MICROFINANCE ORGANISATION

EURO CREDIT

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the year ended 31 December 2022

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of JSC MICROFINANCE ORGANISATION EURO CREDIT

Opinion

We have audited the financial statements of **JSC MICROFINANCE ORGANISATION EURO CREDIT** (hereinafter - the Organisation), which comprise the statement of financial position as at 31 December 2022, and the statement 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 Organisation as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (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 Organisation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 Organisation's internal control

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organisation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Organisation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner responsible for the audit resulting in this independent auditor's report is:

Ivane Zhuzhunashvili (Registration # SARAS-A-720718)

For and on behalf of BDO Audit LLC

Tbilisi, Georgia

17 May 2023

JSC MFO EURO CREDIT

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

(In Georgian Lari)

	Note	31 December 2022	31 December 2021
Assets			
Cash and cash equivalents	6	1,383,154	4,266,053
Loans to customers	7	56,513,261	46,324,013
Other assets		477,189	192,898
Deferred tax asset	8	1,241,203	406
Right-of-use assets	9	1,949,709	2,185,582
Property and equipment	10	411,031	393,362
Total assets		**61,975,547**	**53,362,314**
Liabilities			
Other liabilities		331,281	269,430
Tax liabilities	11	816,822	779,460
Lease liabilities	9	1,611,016	2,168,672
Borrowed funds	12	9,015,948	8,707,190
Subordinated borrowings	12	17,740,310	17,339,867
Total liabilities		**29,515,377**	**29,264,619**
Equity			
Share capital		1,000,000	1,000,000
Retained earnings		31,460,170	23,097,695
Total equity		**32,460,170**	**24,097,695**
Total liabilities and equity		**61,975,547**	**53,362,314**

The financial statements for the year ended 31 December 2022 were approved on behalf of the management on 17 May 2023 by:

Director	**Mikheil Nonikashvili**
Financial Manager	**Guja Tsintsadze**

The notes on pages 9-34 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

(In Georgian Lari)

	Note	2022	2021
Interest income		20,740,706	15,870,856
Interest expense		(3,708,134)	(3,199,350)
Net interest income before impairment		**17,032,572**	**12,671,506**
Loan impairment charge	7	(5,847,897)	(2,122,766)
Net interest income		**11,184,675**	**10,548,740**
Other income	13	4,181,482	3,397,238
Salaries and other employee benefits		(4,055,622)	(4,065,974)
Other operating expenses	14	(4,412,855)	(5,080,827)
Depreciation expenses		(859,810)	(841,852)
Gain from exchange rate difference		2,926,176	517,262
Profit before income tax		**8,964,046**	**4,474,587**
Income tax expenses		(601,571)	(1,173,046)
Total comprehensive income for the year		**8,362,475**	**3,301,541**

The notes on pages 9-34 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

(In Georgian Lari)

	Share capital	Retained earnings	Total
At 31 December 2020	**1,000,000**	**15,967,751**	**16,967,751**
Transactions with owners (Note 5)	-	3,828,403	**3,828,403**
Total comprehensive income for the year	-	3,301,541	**3,301,541**
At 31 December 2021	**1,000,000**	**23,097,695**	**24,097,695**
Total comprehensive income for the year	-	8,362,475	**8,362,475**
At 31 December 2022	**1,000,000**	**31,460,170**	**32,460,170**

The notes on pages 9-34 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(In Georgian Lari)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income tax	**8,964,046**	**4,474,587**
Adjustments for:		
Interest income change	(753,254)	(1,357,249)
Interest expense change	104,304	(1,439,410)
Loan impairment charge	5,847,897	2,122,766
Depreciation and amortisation	859,810	841,852
Net gain on foreign exchange operations	(2,926,176)	(517,262)
Cash outflow from operating activities before changes in operating assets and liabilities	**12,096,627**	**4,125,284**
Movements in working capital:		
Loans to customers	(15,295,516)	(13,765,937)
Other assets	(433,408)	(32,728)
Tax Liabilities	20,811	224,668
Other liabilities	63,121	(318,439)
Cash outflow from operating activities before taxation	**(3,548,365)**	**(9,767,152)**
Income tax paid	(1,825,817)	(192,402)
Net cash outflow from operating activities	**(5,374,182)**	**(9,959,554)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(118,751)	(45,505)
Net cash outflow from investing activities	**(118,751)**	**(45,505)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	13,677,075	14,791,406
Repayment of borrowings	(10,107,656)	(1,195,496)
Lease liabilities	(911,678)	(952,022)
Net cash inflow from financing activities	**2,657,741**	**12,643,888**
Net increase/(deincrease) in cash and cash equivalents	**(2,835,192)**	**2,638,829**
Cash and cash equivalents at the beginning of the period	4,266,053	1,686,981
Effect of exchange rate fluctuations on the cash and cash equivalents held in foreign currencies	(47,707)	(59,757)
Cash and cash equivalents at the end of the year	**1,383,154**	**4,266,053**

Interest received by the Organisation during the year ended 31 December 2022 and 2021 amounted to GEL19,987,452 and GEL14,513,607, respectively.

Interest paid by the Organisation during the year ended 31 December 2022 and 2021 amounted to GEL3,603,831 and GEL4,611,075, respectively.

The notes on pages 9-34 form an integral part of these financial statements.

1. GENERAL INFORMATION

ORGANISATION

JSC MFO EURO CREDIT is a Joint Stock Company (the "Organisation") which was registered on 22 November 2011 at tax department office in Tbilisi, Georgia with the registration number 404919102.

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

As its principal business activity, the Organisation provides micro and small loans (secured by the automobiles) to customers in Georgia.

The Organisation's governing body is the general meeting of shareholders. Daily activities in each branch are supervised by the branch manager appointed by the Organisation's supervisory board and nominated by the CEO.

The Organisation had 11 branches in major cities of Georgia as at 31 December 2022.

The shareholders of the organisation as at 31 December 2022 and 2021 can be presented as follows:

Shareholders	31 December 2022	31 December 2021
ZUK CHINA STONE WORKS LIMITED	75.51%	75.51%
D. Mody Properties LTD	7.99%	7.99%
Grenikasi Yosef Reuven	6.5%	6.5%
Benish Meni	5%	5%
Duenias Oren Abraham	3%	3%
Duenias Eyal	2%	2%
	100%	**100%**

Moshe Zuk was the ultimate controlling party of the Organisation as at 31 December 2022 and 2021.

The Organisation's office is located at 11 Saakadze street, 2nd pass, Tbilisi, Georgia.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

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

The Organisation maintains its records and prepares financial statements in Georgian Lari (GEL). Amounts in the financial statements are presented without rounding, unless otherwise stated. The reporting period for the Organisation is the calendar year from January 1 to December 31.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Organisation's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 3. The principal accounting policies adopted in the preparation of the financial statements are set in the Note 18.

BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost basis.

2. BASIS OF PREPARATION (CONTINUED)

GOING CONCERN

These financial statements have been prepared on the assumption that the Organisation is a going concern and will continue its operations for the foreseeable future. The management believes that the going concern assumption is appropriate for the Organisation.

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

A) NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS EFFECTIVE FROM 1 JANUARY 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

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.

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.

2. BASIS OF PREPARATION (CONTINUED)

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.

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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

MEASUREMENT OF EXPECTED CREDIT LOSSES

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

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

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

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

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

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

TAXATION

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

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

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

GENERAL OBJECTIVES, POLICIES AND PROCESSES

The management has overall responsibility for the determination of the Organisation's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Organisation's finance function.

The overall objective of the management is to set polices that seek to reduce risks as far as possible without unduly affecting the Organisation's competitiveness and flexibility. Further details regarding these policies are set out below. Through its operations, the Organisation is exposed to the following financial risks:

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

CREDIT RISK

Credit risk is the risk 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 the lending and other transactions with counterparties giving rise to financial assets.

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

	31 December 2022	31 December 2021
Cash and cash equivalents	1,383,154	4,266,053
Loans to customers	56,513,261	46,324,013
Total credit risk exposure	**57,896,415**	**50,590,066**

Probability of default (PD)

PD estimates are estimates at a certain date, which are calculated based on statistical rating models. If a counterparty or exposure migrates between ratings' classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. PDs are calculated based on three-year average and then 1-year and lifetime PDs are derived by extrapolating using migration matrices.

As at December 31, 2022, 10% increase/(decrease) in average PD results in ECL increase/ (decrease) by 2.3% that represents GEL322,538/ (322,538).

As at December 31, 2021, 10% increase/(decrease) in average PD results in ECL increase/ (decrease) by 2.3% that represents GEL323,436/ (323,436).

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

Loss given default (LGD)

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

As at December 31, 2022, 10% increase/(decrease) in average LGD results in ECL increase/ (decrease) by 10% that represents GEL 549,467/ (549,467).

As at December 31, 2021, 10% increase/(decrease) in average LGD results in ECL increase/ (decrease) by 10% that represents GEL 1,394,604/ (1,394,604).

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.

In order to manage liquidity risk, the Organisation performs regular monitoring of future expected cash flows, which is a part of assets/liabilities management process. An analysis of the liquidity and interest rate risks is presented in the following tables. The presentation below is based upon the information provided by key management personnel of the Organisation.

Liquidity of financial liabilities as at 31 December 2022 can be presented as follows:

Financial liabilities	**Up to 1 year**	**1 year to 5 years**	**Total**
Other liabilities	331,281	-	**331,281**
Lease liabilities	925,342	1,462,384	**2,387,726**
Borrowed funds	9,286,683	498,358	**9,785,041**
Subordinated Borrowings	2,127,772	22,014,633	**24,142,405**
	12,671,078	**23,975,375**	**36,646,453**

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

Financial liabilities	**Up to 1 year**	**1 year to 5 years**	**Total**
Other liabilities	269,430	-	**269,430**
Lease liabilities	925,342	1,462,384	**2,387,726**
Borrowed funds	4,437,076	5,820,243	**10,257,319**
Subordinated Borrowings	2,031,468	23,048,212	**25,079,680**
	7,663,316	**30,330,839**	**37,994,155**

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

- **CURRENCY RISK**

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Organisation is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

Currency risk of financial assets and liabilities as at 31 December 2022 can be presented as follows:

Financial assets	GEL	USD
Cash and cash equivalents	1,075,891	307,263
Loans to customers	56,513,261	-
Total financial assets	**57,589,152**	**307,263**
Financial liabilities		
Borrowings	8,521,936	494,012
Subordinated Borrowings	-	17,740,310
Lease liabilities	776,456	941,011
Other liabilities	331,281	-
Total financial liabilities	**9,629,673**	**19,175,333**
Open balance sheet position	**47,959,479**	**(18,868,070)**

Currency risk of financial assets and liabilities as at 31 December 2021 can be presented as follows:

Financial assets	GEL	USD
Cash and cash equivalents	4,190,571	75,482
Loans to customers	46,276,810	47,203
Total financial assets	**50,467,381**	**122,685**
Financial liabilities		
Subordinated Borrowings	-	17,339,867
Borrowings	3,823,931	4,883,259
Lease liabilities	326,831	1,841,841
Other liabilities	269,430	-
Total financial liabilities	**4,420,192**	**24,064,967**
Open balance sheet position	**46,047,189**	**(23,942,282)**

The following table details the Organisation's sensitivity to 20% increase and decrease in the foreign currency exchange rates against GEL and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the year for 20% change in foreign currency rates. Impact on the statement of comprehensive income and equity based on financial instrument values as at 31 December 2022 and 2021 can be presented as follows:

	(GEL / USD)	
Sensitivity of the fluctuation of the market exchange rates	**2022**	**2021**
20% increase	(3,773,614)	(4,788,456)
20% decrease	3,773,614	4,788,456

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

- INTEREST RATE RISK

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

Organisation's all interest-bearing assets and liabilities are at fixed interest rates. Therefore, market interest rate fluctuations do not affect Organisation's income or expenses.

MANAGEMENT OF CAPITAL

The Organisation's objectives when maintaining capital are:

- To safeguard the Organisation's ability to continue as a going concern, so that it can continue to operate sufficiently; and
- To comply with the capital requirements set by NBG.
- To provide an adequate return to shareholders.

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

The Organisation is also subject to minimum capital requirements established by covenants stated in loan agreements which are given below:

Covenants imposed by the LFI 1	2022	In breach of
Overdue for 30 days to gross loan portfolio.	<35%	No
Overdue for 90 days to gross loan portfolio.	<33%	No
Total restructured loans to gross loan portfolio	<10%	No
Operating expenses to revenues ratio.	<45%	No
Operating expenses to gross portfolio.	<20%	No
Total non-secured consumer loans to gross portfolio	<20%	No

*Local Financial Institution

Covenants imposed by the LFI 2	2022	In breach of
Total non-secured consumer loans to gross portfolio.	<10%	No
Total restructured loans to gross loan portfolio	<5%	No
Client's debt/Monetary liability divided by the total volume of the Client's credit portfolio	<0.175	No
Client's DEBT/Monetary liability over the Client's equity	<50%	No
Interest income over Finance expense and other expenses related to the related parties	<1.2	No
he Client's total credit portfolio that is on balance sheet as overdue credits divided by Client's PAR 30	>0,86	No

*Local Financial Institution

The Organisation was not in a breach of any covenant as at 31 December 2022. Possible consequences of non-compliance with covenant are disclosed in Note 15.

5. TRANSACTIONS WITH OWNERS

The Organisation has borrowings and subordinated borrowings from related parties with interest rate of 24% (see note 12). As of 1 October 2021, the Organisation negotiated reduced interest rate (12%) based on market conditions. The interest rate change resulted in a modification, as the effect of the change exceeded 10% of amortized balance of the borrowings at that time. Thus, according to IFRS 9 requirements the borrowings were derecognised and new financial liabilities were generated.

6. CASH AND CASH EQUIVALENTS

	31 December 2022	31 December 2021
Cash at bank in Georgian Lari	815,361	3,742,982
Cash at bank in foreign currencies	307,449	75,622
Cash in transit	260,344	447,449
	1,383,154	**4,266,053**

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

7. LOANS TO CUSTOMERS

	31 December 2022	31 December 2021
Gross loans to customers	61,999,429	60,270,051
Less: allowance for impairment losses	(5,486,168)	(13,946,038)
Gross loans to customers	**56,513,261**	**46,324,013**

Analysis by credit quality of the originated loans to customers according to the agreement as at 31 December 2022:

	31 December 2022		
Credit quality of loans to customers	**Gross Loan**	**ECL**	**Net Loan**
Loans without individual sign of impairment	54,415,704	(2,604,853)	51,810,851
less than 30 days overdue	3,015,528	(387,387)	2,628,141
30 to 60 days overdue	785,277	(205,858)	579,419
60 to 90 days overdue	383,285	(145,279)	238,006
Over 90 days	3,304,227	(2,103,473)	1,200,754
Restructured (Less than 90)	43,016	(6,049)	36,967
Restructured (Over 90 Days)	52,392	(33,269)	19,123
At the end of the year	**61,999,429**	**(5,486,168)**	**56,513,261**

7. LOANS TO CUSTOMERS (CONTINUED)

Analysis by credit quality of the originated loans to customers according to the agreement as at 31 December 2021:

	31 December 2021		
Credit quality of loans to customers	**Gross Loan**	**ECL**	**Net Loan**
Loans without individual sign of impairment	40,485,665	(5,096,521)	35,389,144
less than 30 days overdue	1,943,961	(300,515)	1,643,446
30 to 60 days overdue	708,755	(195,914)	512,841
60 to 90 days overdue	468,923	(185,122)	283,801
Over 90 days	16,348,529	(8,062,760)	8,285,769
Restructured (Less than 90)	233,456	(52,289)	181,167
Restructured (Over 90 Days)	80,762	(52,917)	27,845
At the end of the year	**60,270,051**	**(13,946,038)**	**46,324,013**

The Organisation has established internal policy for issuing collateralised loans. Loans are pledged with vehicles. Requirements for collateral are determined by using LTV (Loan to Value) ratio (Maximum ratio is 85% as of NBG).

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**
At 31 December 2021	**2,550,349**	**683,037**	**10,712,652**	**13,946,038**
Transfer to Stage 1	30,239	(27,681)	(2,558)	-
Transfer to Stage 2	(79,115)	79,115	-	-
Transfer to Stage 3	(450,087)	(389,950)	840,037	-
ECL for new generated loans	2,584,937	258,135	723,932	3,567,004
Repaid Loans	(2,091,164)	(424,054)	(854,816)	(3,370,034)
Write off for the year	-	-	(9,442,378)	(9,442,378)
Changes due to change in credit-risk	453,048	172,617	159,873	785,538
At 31 December 2022	**2,998,207**	**351,219**	**2,136,742**	**5,486,168**

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

	Stage 1	**Stage 2**	**Stage 3**	
	12 month ECL	Lifetime ECL not credit-impaired	Lifetime ECL-credit-impaired	**Total**
At 31 December 2021	**42,428,799**	**1,403,584**	**16,437,668**	**60,270,051**
Transfer to Stage 1	107,673	(107,673)	-	**-**
Transfer to Stage 2	(303,540)	303,540	-	**-**
Transfer to Stage 3	(910,059)	(408,864)	1,318,923	**-**
New generated loans	139,566,425	-	-	**139,566,425**
Transfer to Stage 2	(858,196)	858,196	-	**-**
Transfer to Stage 3	(1,137,676)	-	1,137,676	**-**
Net changes in interest accrual	(318,088)	(34,938)	(147,150)	**(500,175)**
Repaid Loans	(121,052,379)	(852,808)	(1,639,868)	**(123,545,056)**
Write off for the year	-	-	(14,409,642)	**(14,409,642)**
Foreign exchange and other movements	(46,932)	8,103	656,654	**617,825**
At 31 December 2022	**57,476,027**	**1,169,140**	**3,354,262**	**61,999,429**

7. LOANS TO CUSTOMERS (CONTINUED)

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**
At 31 December 2020	**2,191,398**	**512,846**	**10,325,044**	**13,029,288**
Transfer to Stage 1	12,056	(12,056)	-	-
Transfer to Stage 2	(86,263)	86,263	-	-
Transfer to Stage 3	(359,645)	(138,294)	497,939	-
ECL for new generated loans	3,484,811	-	-	3,484,811
Repaid Loans	(1,652,950)	(313,634)	(795,894)	(2,762,478)
Write off for the year	(8,744)	(29,564)	(1,044,015)	(1,082,323)
Changes due to change in credit-Risk	(1,030,314)	577,476	1,729,578	1,276,740
At 31 December 2021	**2,550,349**	**683,037**	**10,712,652**	**13,946,038**

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

	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	**Total**
At 31 December 2020	**26,523,403**	**1,874,506**	**17,962,206**	**46,360,115**
Transfer to Stage 1	168,611	(168,611)	-	**-**
Transfer to Stage 2	(189,445)	189,445	-	**-**
Transfer to Stage 3	(550,702)	(230,467)	781,169	**-**
New generated loans	43,532,675	-	-	**43,532,675**
Transfer to Stage 2	(1,207,026)	1,207,026	-	**-**
Transfer to Stage 3	(890,556)	-	890,556	**-**
Net changes in interest accrual	574,504	42,499	(265,570)	**351,433**
Repaid Loans	(25,534,948)	(1,484,843)	(1,919,133)	**(28,938,924)**
Write off for the year	(43,682)	(68,367)	(1,035,952)	**(1,148,001)**
Foreign exchange and other movements	45,965	42,396	24,392	**112,753**
At 31 December 2021	**42,428,799**	**1,403,584**	**16,437,668**	**60,270,051**

8. TAXATION

Income tax expenses recorded in profit or loss for the year comprise the following:

	2022	2021
Current tax	(1,842,368)	(961,009)
Effect of temporary differences	1,240,797	(212,037)
Income tax expense	**(601,571)**	**(1,173,046)**

Reconciliation between the expected and the actual taxation charge is provided below:

	2022	2021
Profit before income tax	8,964,046	4,474,587
Applicable tax rate	**15%**	**15%**
Theoretical income tax	(1,792,809)	(671,188)
Effect of permanent differences	1,191,238	(501,858)
Income tax expense	**(601,571)**	**(1,173,046)**

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

Temporary differences due to	At 31 December 2021	Credited / (charged) to the P&L	(Charged)/ credited to equity	At 31 December 2021	Credited / (charged) to P&L	At 31 December 2022
Loans to customers	242,008	(221,489)	-	20,519	1,370,629	1,391,148
Property and equipment	(69,756)	52,179	-	(17,577)	(64,629)	(82,206)
Right-of-use Assets	(457,129)	129,292	-	(327,837)	(62,105)	(389,942)
Lease liabilities	476,672	(151,371)	-	325,301	(3,098)	322,203
Other liabilities	20,648	(20,648)	-	-	-	-
Subordinated borrowings	689,794	-	(689,794)	-	-	-
Tax loss carry forward	-	-	-	-	-	-
Deferred tax (liabilities) / assets	**902,237**	**(212,037)**	**(689,794)**	**406**	**1,240,797**	**1,241,203**

There are no material unrecognised deferred tax assets or liabilities, or any taxes recognised directly in equity or other comprehensive income.

9. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Organisation's lease agreements, for which right of use assets are recognised, include leases to the head office and branches. The renewal option is implied through customary business practices. Remaining lease terms are defined as up to five years. Lease payments for these spaces are fixed over the lease term and are denominated in USD and GEL. Incremental borrowing rate used by Organisation in accounting for leases are 7.21% and 13.5% annually for each lease, according to their currencies. The Organisation has no borrowings received in the current or comparable period with similar currency, maturity and terms. IBR was determined based on observable market data for a similar sector.

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

	2022	2021
At the beginning of the year	**2,185,582**	**3,047,528**
New leases	604,197	26,076
Modification	56,736	(37,484)
Lease termination	(138,078)	(125,869)
Depreciation	(758,728)	(724,669)
At the end of the year	**1,949,709**	**2,185,582**

Lease liabilities can be presented as follows:

	2022	2021
At the beginning of the year	**2,168,672**	**3,177,814**
New leases	563,666	26,076
Interest expense	175,042	207,360
Lease payments	(911,678)	(952,022)
Modification	56,736	(159,622)
Lease termination	(189,972)	(27,685)
Foreign exchange movements	(251,450)	(103,249)
At the end of the year	**1,611,016**	**2,168,672**

10. PROPERTY AND EQUIPMENT

Historical cost	Office equipment	Leasehold improvement	Other	Total
At 31 December 2020	**410,327**	**293,958**	**62,108**	**766,393**
Additions	29,605	6,844	9,056	**45,505**
At 31 December 2021	**439,932**	**300,802**	**71,164**	**811,898**
Additions	26,062	8,916	83,773	**118,751**
At 31 December 2022	**465,994**	**309,718**	**154,937**	**930,649**
Accumulated depreciation				
At 31 December 2020	**(202,404)**	**(94,698)**	**(4,251)**	**(301,353)**
Depreciation charge for the year	(71,494)	(42,943)	(2,746)	**(117,183)**
At 31 December 2021	**(273,898)**	**(137,641)**	**(6,997)**	**(418,536)**
Depreciation charge for the year	(45,213)	(44,079)	(11,790)	**(101,082)**
At 31 December 2022	**(319,111)**	**(181,720)**	**(18,787)**	**(519,618)**
Net book value				
At 31 December 2021	**166,034**	**163,161**	**64,167**	**393,362**
At 31 December 2022	**146,883**	**127,998**	**136,150**	**411,031**

11. TAX ASSET/LIABILITY

According to the Georgian Tax Legislation, the legal entities should pay taxes on unified treasury code applicable for all taxes. As a result, as at 31 December 2022 and 2021 the Organisation presents tax assets and liabilities on net bases.

12. BORROWINGS AND SUBORDINATED BORROWINGS

Borrowed funds as at 31 December 2022 can be presented as follows:

	Interest rate	Maturity date	Currency	Originated borrowings	Accrued Interest
LFI 1*	NBG rate + 7.5%	23-May-23	GEL	4,500,000	12,347
LFI 2*	NBG rate + 6.5%	26-Sep-23	GEL	4,000,000	9,589
Eurocredit +	12%	26-Jan-24	USD	493,331	681
Total Borrowed Funds				**8,993,331**	**22,617**

*Local Financial Institution

Borrowed funds as at 31 December 2021 can be presented as follows:

	Interest rate	Maturity date	Currency	Originated borrowings	Accrued Interest
LFI 1*	NBG rate + 7.5%	2-Jun-23	GEL	3,777,514	46,417
Eurocredit +	12%	26-Jan-24	USD	4,865,673	17,586
Total Borrowed Funds				**8,643,187**	**64,003**

*Local Financial Institution

Loans from the local banks are secured with Organisation's loan portfolio with amount of – USD 4,113,134 For LFI 1 and USD 10,000,000 for LFI 2.

Subordinated borrowings for 31 December 2022 can be presented as follows:

	Interest rate	Maturity date	Currency	Originated borrowings	Accrued Interest
Eurocredit + (Sub 1)	12%	1-Dec-24	USD	3,536,120	4,650
Eurocredit + (Sub 2)	12%	1-Dec-24	USD	3,536,120	4,650
Eurocredit + (Sub 3)	12%	2-Dec-26	USD	4,062,560	5,343
Eurocredit + (Sub 4)	12%	1-Jun-26	USD	3,932,411	5,171
Eurocredit + (Sub 5)	12%	1-May-27	USD	2,649,800	3,485
Total Subordinated Funds				**17,717,011**	**23,299**

Subordinated borrowings for 31 December 2021 can be presented as follows:

	Interest rate	Maturity date	Currency	Originated borrowings	Accrued Interest
Eurocredit + (Sub 1)	12%	1-Dec-24	USD	4,053,844	15,993
Eurocredit + (Sub 2)	12%	1-Dec-24	USD	4,053,844	15,993
Eurocredit + (Sub 3)	12%	2-Dec-26	USD	4,657,359	18,374
Eurocredit + (Sub 4)	12%	1-Jun-26	USD	4,508,156	16,304
Total Subordinated Funds				**17,273,203**	**66,664**

The principal of the Subordinated borrowings should be repaid at the end of the maturity date, interest on the loans is payable on a monthly basis.

12. BORROWINGS AND SUBORDINADET BORROWINGS (CONTINUED)

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

	2022	2021
At the beginning of the year	26,047,057	19,083,694
Cash flows	(34,412)	8,984,931
Non-cash flows:		
Interest accruing in period	3,533,092	2,991,990
Effects of foreign exchange	(2,789,479)	(495,361)
Effects of modification	-	(4,518,197)
At the end of the year	**26,756,258**	**26,047,057**

13. OTHER INCOME

	2022	2021
Penalties and fines	3,504,260	2,801,041
Income From EP Commission	604,239	543,227
Other	72,983	52,970
	4,181,482	**3,397,238**

14. OTHER OPERATING EXPENSES

	2022	2021
Marketing cost	(1,389,152)	(1,744,861)
IT Consulting Service	(551,452)	(554,845)
Debt Collection Expense	(431,168)	(361,249)
Consulting and other professional services*	(381,513)	(284,995)
Legal Expenses	(294,402)	(520,560)
Communication	(171,676)	(177,671)
Application inspection expenses	(145,033)	(143,612)
Security	(125,979)	(117,585)
Utilities	(125,033)	(127,997)
Office expense	(98,719)	(96,063)
Business trips	(97,813)	(94,605)
Fuel	(89,805)	(127,695)
Repossessed cars expenses	(89,079)	(63,603)
Bank fees	(65,368)	(78,333)
Pledge expenses	(52,515)	(337,256)
Other Expenses	(304,148)	(249,897)
	(4,412,855)	**(5,080,827)**

*Consulting services include audit fees with total amount of GEL53,323 and GEL57,121 for the years ended 31 December 2022 and 2021, respectively.

15. COMMITMENTS AND CONTINGENCIES

LITIGATION

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

Legal proceedings against Organisation's customers unable to repay loans

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

As it is not certain that all the customers will meet the repayment obligations, the Organisation recognises provision for impairment for such loans, as disclosed in Note 7.

MANAGEMENT REPORT

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

COMPLIANCE WITH COVENANTS

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

The Organisation was not in a breach of any covenant as at 31 December 2022.

16. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", could be one or more of the followings:

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

b) Members of key management personnel of the Organisation or its parent;

c) Close members of the family of any individuals referred to in (a) or (b);

d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (b);

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

Transactions with related parties as at 31 December 2022 can be presented as follows:

Financial Statement caption	Key management personnel	Entity under common control	Other
Borrowings	-	494,012	-
Subordinated borrowings	-	17,740,310	-
Interest expense	-	(2,458,901)	-
Salaries and other employee benefits	(328,197)	-	-
Other operating expenses	-	-	(431,000)

16. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Transactions with related parties as at 31 December 2021 can be presented as follows:

Financial Statement caption	Key management personnel	Entity under common control	Other
Borrowed funds	-	4,883,259	-
Subordinated borrowings	-	17,339,867	-
Interest expense	-	(2,749,534)	-
Salaries and other employee benefits	(230,222)	-	-
Other operating expenses	-	-	(361,105)

17. EVENTS AFTER THE REPORTING PERIOD

Issuance of bonds

In February 2023, the Organization started working on the bond prospectus and plans to issue securities with a total nominal value of 10 million US dollars. Raised funds will be used for further loan disbursements and generate the loan portfolio and/or cover the Organization 's obligations.

18. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS

INITIAL RECOGNITION OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the Organisation's financial position when the Organisation 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 Organisation accounts for such difference as follows:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the Organisation recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Organisation recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognised.

FINANCIAL ASSETS

Classification and subsequent measurement

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

FINANCIAL ASSETS AT AMORTISED COST

Financial asset at amortised cost is the most relevant measurement category to the Organization. The Organization 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 Organisation's all financial assets are measured at amortised cost, except Derivative financial assets.

18. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUSINESS MODEL ASSESSMENT

There are three business models available under IFRS 9:

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

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

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

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

SOLELY PAYMENTS OF PRINCIPAL AND INTEREST (SPPI)

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

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

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

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

DERECOGNITION OF FINANCIAL ASSETS

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

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

18. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS

Bases for ECL principles In according to IFRS 9 requirements the Organisation 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 Organisation first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

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

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

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

Interest Income Recognition

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

18. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Definition of default

The Organisation recognizes default in the following cases:

- Arrears including restructured loans >90 days
- Decease of a client
- Force majeure, when a client becomes insolvent due to external factors beyond the control

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

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

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Organisation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Organisation's historical experience and expert credit assessment and including forward-looking information.

The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

As a backstop, the Organisation considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

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

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 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 Organisation 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 Organisation 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 analysed:

- Real growth rate of GDP of Georgia;
- Unemployment rate;

18. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

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.

Probability of default (PD)

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

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

PDs are calculated based on three-year average and then 1-year and lifetime PDs are derived by extrapolating using migration matrices.

Exposure at default (EAD)

Exposure of default (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.

Loss given default (LGD)

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

FINANCIAL LIABILITIES

The Organisation classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. On 1 January 2018 (the date of initial application of IFRS 9), the Organisation has classified all financial as liabilities within “Other financial liabilities” category. Other financial liabilities include the following items: borrowings and other short-term monetary liabilities.

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

DERECOGNITION OF FINANCIAL LIABILITIES

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

18. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OFFSETTING

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.

FOREIGN CURRENCY TRANSLATION

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

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

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

Table below presents the closing exchange rates by the National Bank of Georgia as at 31 December 2022 and 2021:

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

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.

LOANS TO CUSTOMERS AND OTHER RECEIVABLES

Loans to customers and other receivables included in other assets in the statement of financial position are non-derivative financial assets measured at amortised cost. Loans to customers and other receivables are initially measured at fair value and subsequently at their amortised cost using the effective interest method.

PROPERTY AND EQUIPMENT

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

Historical cost	Useful life (years)
Leasehold improvements	10
Office equipment	5
Other	5

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use.

18. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BORROWINGS AND SUBORDINATED BORROWINGS

Borrowings 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.

The subordinated borrowings represent the obligations that rank lower than all other loans and securities with respect to the claim on a firm's assets. Therefore, if the borrower defaults, the creditors of subordinated debt will be compensated after all other debt holders are paid in full.

SHARE CAPITAL

Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

DIVIDENDS

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note.

LEASES

The Organisation as lessee

Identifying the lease

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

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

Initial recognition

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

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

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

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

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

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

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

18. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Subsequent measurement

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

When the Organisation revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

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

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

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

Determination of lease term

The lease term is defined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (including the renewal option implied through customary business practices) if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

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

Determination of incremental borrowing rate (IBR)

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

18. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Determination of lease payments

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

Short-term leases and leases of low-value assets

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

TAXATION

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

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

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

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

SALARIES AND OTHER EMPLOYEE BENEFITS

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

PROVISIONS

Provisions are recognized when the Organisation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Organisation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

EVENTS AFTER THE REPORTING PERIOD

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