JSC MICROFINANCE ORGANISATION

EURO CREDIT

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the year ended 31 December 2021

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FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

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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 2021, 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 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

15 June 2022

As at 31 December 2021

(In Georgian Lari)

	Notes	31 December 2021	31 December 2020*	1 January 2020*
Assets				
Cash and cash equivalents	7	4,266,053	1,686,981	2,772,874
Loans to customers	8	46,324,013	33,330,827	33,846,448
Other assets		192,898	184,265	212,492
Tax asset	9	-	213,815	816,459
Deferred tax asset	10	406	902,237	596,942
Right-of-use assets	11	2,185,582	3,047,528	3,465,672
Property and equipment	12	393,362	465,040	528,592
Total assets		**53,362,314**	**39,830,693**	**42,239,479**
Liabilities				
Other liabilities		269,430	601,434	1,703,427
Tax liability	9	779,460	-	-
Lease liabilities	11	2,168,672	3,177,814	3,184,554
Borrowed funds	13	8,707,190	-	7,946,939
Subordinated borrowings	13	17,339,867	19,083,694	12,213,304
Total liabilities		**29,264,619**	**22,862,942**	**25,048,224**
Equity				
Share capital		1,000,000	1,000,000	1,000,000
Retained earnings		23,097,695	15,967,751	16,191,255
Total equity		**24,097,695**	**16,967,751**	**17,191,255**
Total liabilities and equity		**53,362,314**	**39,830,693**	**42,239,479**

(*) – Restated, for additional information, please refer to Note 6.

The financial statements for the year ended 31 December 2021 were approved on behalf of the management on 15 June 2022 by:

Director ______________________________ Mikheil Nonikashvili

Financial Manager ______________________________ Guja Tsintsadze

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

(In Georgian Lari)

	Notes	31 December 2021	31 December 2020*	1 January 2020*
Assets				
Cash and cash equivalents	7	4,266,053	1,686,981	2,772,874
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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 2021

(In Georgian Lari)

	Notes	2021	2020*
Interest income		15,870,856	13,465,393
Interest expense		(3,199,350)	(3,136,946)
Net interest income before impairment		**12,671,506**	**10,328,447**
Loan impairment charge	8	(2,122,766)	(332,974)
Net interest income		**10,548,740**	**9,995,473**
Other income	14	3,397,238	2,463,386
Salaries and other employee benefits		(4,065,974)	(3,505,255)
Other operating expenses	15	(5,080,827)	(3,232,533)
Depreciation		(841,852)	(897,600)
Net gain/(loss) from exchange rate differences		517,262	(2,621,479)
Profit before income tax		**4,474,587**	**2,201,992**
Income tax expense	10	(1,173,046)	(12,237)
Total comprehensive income		**3,301,541**	**2,189,755**

(*) – Restated, for additional information, please refer to Note 6.

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 2021

(In Georgian Lari)

	Share capital	Retained earnings	Total
At 31 December 2019*	**1,000,000**	**16,191,255**	**17,191,255**
Transactions with owners (net of tax) (Note 5, 6)	-	(2,413,259)	**(2,413,259)**
Total comprehensive income for the year	-	2,189,755	**2,189,755**
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**

(*) – Restated, for additional information, please refer to Note 6.

	2021	2020*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income tax	**4,474,587**	**2,201,992**
Adjustments for:		
Interest income	(1,357,249)	(1,852,283)
Interest expense	(1,439,410)	691,794
Loan impairment charge	2,122,766	332,974
Depreciation and amortisation	841,852	897,600
Net gain on foreign exchange operations	(517,262)	2,621,479
Cash outflow from operating activities before changes in operating assets and liabilities	**4,125,284**	**4,893,556**
Changes in operating assets and liabilities:		
Loans to customers	(13,765,937)	2,061,684
Other assets	(32,728)	37,742
Tax assets/liabilities	32,266	506,442
Other liabilities	(318,439)	(165,825)
Net cash inflow/(outflow) from operating activities	**(9,959,554)**	**7,333,599**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(45,505)	(84,358)
Net cash outflow from investing activities	**(45,505)**	**(84,358)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	14,791,406	1,100,000
Repayment of borrowings	(1,195,496)	(8,352,162)
Lease liabilities	(952,022)	(871,989)
Transactions with owners	-	(370,341)
Net cash inflow/(outflow) from financing activities	**12,643,888**	**(8,494,492)**
Net increase/(decrease) in cash and cash equivalents	**2,638,829**	**(1,245,251)**
Cash and cash equivalents at the beginning of the period	**1,686,981**	**2,772,874**
Effect of exchange rate fluctuations on the cash and cash equivalents held in foreign currencies	(59,757)	159,358
Cash and cash equivalents at the end of the year	**4,266,053**	**1,686,981**

(*) – Restated, for additional information, please refer to Note 6.

Interest received by the Organisation during the year ended 31 December 2021 and 2020 amounted to GEL14,513,607 and GEL11,613,110, respectively.

Interest paid by the Organisation during the year ended 31 December 2021 and 2020 amounted to GEL4,611,075 and GEL2,445,152, respectively.

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 2021.

The shareholders of the organisation as at 31 December 2021 and 2020 can be presented as follows:

Shareholders	31 December 2021	31 December 2020
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 2021 and 2020.

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 19.

BASIS OF MEASUREMENT

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

2. BASIS OF PREPARATION (CONTINUED)

GOING CONCERN

In determining the appropriateness of the basis of preparation, the management of the Organisation has considered the impact of the COVID-19 pandemic on the position of the Organisation at 31 December 2021 and its operations in the future. The management believes that Pandemic has not had impact on the Organisation's going concern despite its effect on operations, cash flows and financial position of the Organisation. These financial statements have been prepared on the assumption that the Organisation is a going concern and will continue its operations for the foreseeable future. The management and shareholder have the intention to further develop the business of the Organisation in Georgia. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Organisation's ability to continue as a going concern. The management believes that the going concern assumption is appropriate for the Organisation.

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

There have been adopted some new standards and interpretations. Neither of interpretations and amendments have material effect, on the Company's financial statements for the year ended 31 December 2021:

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

b) New standards, interpretations and amendments not yet effective

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

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

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41);
- References to Conceptual Framework (Amendments to IFRS 3).

The following amendments are effective for the period beginning 1 January 2023:

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

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

The Organisation is currently assessing the possible impact of the new standard on its financial statements. The Organisation does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the financial statements.

Other

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

MEASUREMENT OF EXPECTED CREDIT LOSSES

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

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

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 2021	31 December 2020
Cash and cash equivalents (excluding cash on hand)	4,266,053	1,683,631
Loans to customers	46,324,013	33,330,827
	50,590,066	**35,014,458**

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

As at December 31, 2020, 10% increase/(decrease) in average PD results in ECL increase/ (decrease) by 2% that represents GEL267,064/ (267,064).

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

As at December 31, 2020, 10% increase/(decrease) in average LGD results in ECL increase/ (decrease) by 10% that represents 1,335,322/ (1,335,322).

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 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**

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

Financial liabilities	Up to 1 year	1 year to 5 years	Over 5 years	Total
Other liabilities	601,434	-	-	**601,434**
Lease liabilities	1,023,848	2,617,264	20,479	**3,661,591**
Subordinated Borrowings	4,205,263	15,503,590	6,011,671	**25,720,524**
	5,830,545	**18,120,854**	**6,032,150**	**29,983,549**

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 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		
Other liabilities	269,430	-
Lease liabilities	326,831	1,841,841
Borrowed funds	3,823,931	4,883,259
Subordinated Borrowings	-	17,339,867
Total financial liabilities	**4,420,192**	**24,064,967**
Open balance sheet position	**46,047,189**	**(23,942,282)**

Currency risk of financial assets and liabilities as at 31 December 2020 can be presented as follows:

Financial assets	GEL	USD
Cash and cash equivalents	681,176	1,005,805
Loans to customers	33,233,227	97,600
Total financial assets	**33,914,403**	**1,103,405**
Financial liabilities		
Other liabilities	349,243	252,191
Lease liabilities	364,941	2,812,873
Subordinated Borrowings	-	14,485,069
Total financial liabilities	**714,184**	**17,550,133**
Open balance sheet position	**33,200,219**	**(16,446,728)**

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 2021 and 2020 can be presented as follows:

	(GEL / USD)	
Sensitivity of the fluctuation of the market exchange rates	**2021**	**2020**
20% increase	(4,788,456)	(3,289,346)
20% decrease	4,788,456	3,289,346

- **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.

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

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.

5. TRANSACTIONS WITH OWNERS

In 2020 the Organisation received intermediary service from Zuk China Stone Works Limited (Service provider). The service provider has experience in attracting investors for investing in financial companies such as the Organisation. At the same time Service provider is holding the majority of shares in the Organisation. The service provider took an obligation to research investors for the Organisation, in order to raise funds for financing purposes. In 2020 the Organisation did not rise funds through the service. Service fee amounted GEL370,341.

The Organisation has borrowings and subordinated borrowings from related parties with interest rate of 24% (see note 13). 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. The Organisation also made retrospective adjustments on initial recognition of the borrowings according to fair rate (see note 6). The effect of modification is presented in the statement of changes in equity since.

6. ADJUSTMENTS OF PRIOR PERIOD ERRORS

The Organisation made the following adjustments in prior periods statement of financial position and statement of comprehensive income to be in compliance with IFRS 9 requirements regarding the initial recognition of financial instruments with fair value and subsequent measurement with amortized cost:

	31 December 2020 As stated	Adjustments	31 December 2020 As restated
Statement of financial position			
Deferred tax asset	**212,443**	689,794	**902,237**
Subordinated borrowings	**14,485,069**	4,598,625	**19,083,694**
Retained earnings	**19,876,582**	(3,908,831)	**15,967,751**
Statement of comprehensive income			
Interest expense	**(3,925,659)**	788,713	**(3,136,946)**

	31 December 2019 As stated	Adjustments	31 December 2019 As restated
Statement of financial position			
Deferred tax asset	**128,478**	468,464	**596,942**
Subordinated borrowings	**9,090,214**	3,123,090	**12,213,304**
Retained earnings	**18,845,881**	(2,654,626)	**16,191,255**

7. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Cash on hand	-	3,350
Cash in bank in Georgian Lari	3,742,982	322,875
Cash in bank in foreign currencies	75,622	1,005,805
Cash in transit	447,449	354,951
	4,266,053	**1,686,981**

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

8. LOANS TO CUSTOMERS

	31 December 2021	31 December 2020
Gross loans to customers	60,270,051	46,360,115
Less: allowance for impairment losses	(13,946,038)	(13,029,288)
Gross loans to customers	**46,324,013**	**33,330,827**

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
	60,270,051	**(13,946,038)**	**46,324,013**

Analysis by credit quality of the originated loans to customers according to the agreement as at 31 December 2020:

	31 December 2020		
Credit quality of loans to customers	**Gross Loan**	**ECL**	**Net Loan**
Loans without individual sign of impairment	25,158,793	(1,962,414)	23,196,379
less than 30 days overdue	1,364,610	(228,983)	1,135,627
30 to 60 days overdue	487,006	(141,529)	345,477
60 to 90 days overdue	330,879	(136,256)	194,623
Over 90 days	12,814,957	(7,268,904)	5,546,053
Restructured (Less than 90)	1,061,444	(237,199)	824,245
Restructured (Over 90 Days)	5,142,426	(3,054,003)	2,088,423
	46,360,115	**(13,029,288)**	**33,330,827**

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).

8. 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. LOANS TO CUSTOMERS (CONTINUED)

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

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	Total
At 31 December 2019	**3,431,292**	**444,741**	**9,477,192**	**13,353,225**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(260,823)	260,823	-	-
Transfer to Stage 3	(1,103,751)	(475,838)	1,579,589	-
ECL for new loans	2,570,768	-	-	**2,570,768**
Repaid Loans	(2,235,201)	(182,458)	(713,818)	**(3,131,477)**
Write off for the year	-	-	(371,709)	**(371,709)**
Changes due to change in credit-risk	(210,887)	465,578	353,790	**608,481**
At 31 December 2020	**2,191,398**	**512,846**	**10,325,044**	**13,029,288**

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 2019	**30,258,638**	**1,609,977**	**15,343,484**	**47,212,099**
Transfer to Stage 1	32,935	(25,590)	(7,345)	-
Transfer to Stage 2	(1,020,602)	1,020,602	-	-
Transfer to Stage 3	(1,864,733)	(787,021)	2,651,754	-
New generated loans	27,731,213	-	-	**27,731,213**
Transfer to Stage 2	(792,661)	792,661	-	-
Transfer to Stage 3	(802,764)	-	802,764	-
Net changes in interest accrual	341,280	35,845	868,112	**1,245,237**
Repaid Loans	(26,563,167)	(1,743,712)	(1,249,190)	**(29,556,069)**
Write off for the year	(53,720)	(32,958)	(282,870)	**(369,548)**
Foreign exchange and other movements	(743,016)	1,004,702	(164,503)	**97,183**
At 31 December 2020	**26,523,403**	**1,874,506**	**17,962,206**	**46,360,115**

9. 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 2021 and 2020 the Organisation presents tax assets and liabilities on net bases.

10. TAXATION

Temporary differences at a rate of 15% due to:	At 31 December 2019	Credited / (charged) to the P&L	Credited / (charged) to equity	At 31 December 2020	Credited / (charged) to the P&L	Credited / (charged) to equity	At 31 December 2021
Loans to customers	732,941	(490,933)	-	242,008	(221,489)	-	20,519
Property and equipment	(79,289)	9,533	-	(69,756)	52,179	-	(17,577)
Right-of-use Assets	(519,851)	62,722	-	(457,129)	129,292	-	(327,837)
Lease liabilities	477,683	(1,011)	-	476,672	(151,371)	-	325,301
Other liabilities	20,648	-	-	20,648	(20,648)	-	-
Subordinated borrowings	468,464	-	221,330	689,794	-	(689,794)	-
Tax loss carry forward	229,287	(229,287)	-	-	-	-	-
Deferred tax (liabilities)/ assets	**1,329,883**	**(648,976)**	**221,330**	**902,237**	**(212,037)**	**(689,794)**	**406**
Unrecognised Temporary differences							
Loans to customers	(732,941)	732,941	-	-	-	-	-
Net deferred tax asset	**596,942**	**83,965**	**221,330**	**902,237**	**(212,037)**	**(689,794)**	**406**

On 12 June 2018, an amendment to the current corporate taxation model applicable to financial institutions, including microfinance organisations, became effective. The change implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings starting from 1 January 2023, instead of 1 January 2019 as previously enacted in 2016. The change had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. The Organization has calculated the portion of deferred taxes that is expected to be realised before 1 January 2023 for financial businesses and has recognised the respective portion of deferred tax assets and liabilities. During the transitional period, the Organization will only continue to recognise the portion of deferred tax assets and liabilities arising on items charged or credited to the income statement during the same period, which it expects to be realised before 1 January 2023.

Income tax expense comprises the following:

	2021	2020
Current tax	(961,009)	(96,202)
Effect of temporary differences	(212,037)	83,965
Income tax expense	**(1,173,046)**	**(12,237)**

The tax effects of the movements in temporary differences recorded at the rate of 15% are as follows:

	2021	2020
Profit before income tax	4,474,587	1,413,279
Applicable tax rate	**15%**	**15%**
Theoretical income tax	**(671,188)**	**(211,992)**
Effect of previously unrecognised tax asset	-	732,941
Effect of permanent differences	(501,858)	(533,186)
Income tax expense	**(1,173,046)**	**(12,237)**

11. 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:

	2021	2020
At the beginning of the year	**3,047,528**	**3,465,672**
New leases	26,076	331,546
Lease termination	(37,484)	-
Modification	(125,869)	-
Depreciation	(724,669)	(749,690)
At the end of the year	**2,185,582**	**3,047,528**

Lease liabilities can be presented as follows:

	2021	2020
At the beginning of the year	**3,177,814**	**3,184,554**
New leases	26,076	331,546
Interest expense	207,360	261,703
Lease payments	(952,022)	(871,989)
Rent concession*	-	(56,919)
Modification	(159,622)	-
Lease termination	(27,685)	-
Foreign exchange movements	(103,249)	328,919
At the end of the year	**2,168,672**	**3,177,814**

*The Organisation has elected to apply the practical expedient introduced by the amendments to IFRS 16 to all rent concessions that satisfy the criteria. Substantially all of the rent concessions entered into during year satisfy the criteria to apply the practical expedient. The application of the practical expedient has resulted in the reduction of total lease liabilities of GEL56,919. The effect of this reduction has been recorded in profit or loss in the period in which the event or condition that triggers those payments occurred.

12. PROPERTY AND EQUIPMENT

Historical cost	Office equipment	Leasehold improvements	Other	Total
At 1 January 2020	**393,171**	**271,091**	**17,773**	**682,035**
Additions	17,156	22,867	44,335	**84,358**
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**
Accumulated depreciation				
At 1 January 2020	**(98,833)**	**(52,470)**	**(2,140)**	**(153,443)**
Depreciation charge for the year	(103,571)	(42,228)	(2,111)	**(147,910)**
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)**
Net book value				
At 31 December 2020	**207,923**	**199,260**	**57,857**	**465,040**
At 31 December 2021	**166,034**	**163,161**	**64,167**	**393,362**

13. BORROWINGS AND SUBORDINATED BORROWINGS

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

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

Borrowed funds as at 31 December 2019 can be presented as follows:

	Interest rate	Maturity date	Currency	Originated borrowings	Accrued Interest
Euro credit+	24%	3-Feb-20	USD	1,412,712	7,431
TOM HOLDINGS LTD	12%	31-Jul-20	USD	1,433,490	-
Ronni Biram investments ltd	12%	31-Jul-20	USD	1,433,910	-
WGH Georgia investments LTD	20%	On demand	USD	3,649,398	9,998
				7,929,510	**17,429**

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

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

13. BORROWINGS AND SUBORDINATED BORROWINGS (CONTINUED)

Subordinated borrowings for 31 December 2020 can be presented as follows:

	Interest rate	Maturity date	Currency	Originated borrowings	Accrued Interest
Eurocredit(subord 1)	24%	1-Dec-24	USD	5,561,956	87,407
Eurocredit(subord 2)	24%	1-Dec-24	USD	5,561,956	87,407
Eurocredit(subord 3)	24%	2-Dec-26	USD	6,977,410	807,558
				18,101,322	**982,372**

Subordinated borrowings for 31 December 2019 can be presented as follows:

				31 December 2019	
	Interest rate	Maturity date	Currency	Originated borrowings	Accrued Interest
Eurocredit(subord 1)	24%	1-Dec-24	USD	5,314,518	792,134
Eurocredit(subord 2)	24%	1-Dec-24	USD	5,314,518	792,134
				10,629,036	**1,584,268**

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.

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:

	2021	2020	2019
At the beginning of the year	19,083,694	20,150,736	21,583,226
Cash flows	8,984,931	(9,697,697)	(10,150,288)
Non-cash flows:			
Interest accruing in period	2,991,990	2,875,243	3,662,432
Transfer from other liabilities*	-	1,036,000	-
Effects of foreign exchange	(495,361)	2,455,164	1,941,783
Effects of modification (note 6)	(4,518,197)	2,264,248	3,123,090
At the end of the year	**26,047,057**	**19,083,694**	**20,160,243**

* Short-term Lease payable to Euro Credit + amounting GEL 1,036,000 was transferred to subordinated borrowings.

14. OTHER INCOME

	2021	2020
Penalties and fines	2,801,041	2,130,012
Income from EP Commission	543,227	224,253
Rent concession	-	56,919
Other	52,970	52,202
	3,397,238	**2,463,386**

15. OTHER OPERATING EXPENSES

	2021	2020
Marketing cost	(1,744,861)	(773,152)
IT Consulting Service	(554,845)	(507,521)
Legal Expenses	(520,560)	(348,751)
Debt Collection Expenseს	(361,249)	(219,965)
Pledge expenses	(337,256)	(98,988)
*Consulting and other professional services	(284,995)	(81,610)
Communication	(177,671)	(175,188)
Application inspection expenses	(143,612)	(144,784)
Utilities	(127,997)	(79,695)
Fuel	(127,695)	(74,477)
Security	(117,585)	(136,843)
Office expense	(96,063)	(124,205)
Business trips	(94,605)	(120,385)
Bank fees	(78,333)	(27,157)
Repossessed cars expenses	(63,603)	(64,091)
Other	(249,897)	(255,721)
	(5,080,827)	**(3,232,533)**

*Consulting services include audit fees with total amount of GEL57,121 and GEL62,968 for the years ended 31 December 2021 and 2020, respectively.

16. 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 8.

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 prepared Management Report at the date of issue of the financial statements.

17. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, could be one or more of the 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 2021 can be presented as follows:

Financial Statement caption	Shareholders	Key management	Entity under common control	Other
Borrowings	-	-	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)

Transactions with related parties as at 31 December 2020 can be presented as follows:

Financial Statement caption	Shareholders	Key management	Entity under common control	Other
Other liabilities	-	-	321,515	-
Subordinated borrowings	-	-	19,083,694	-
Interest expense	-	-	(2,688,163)	-
Salaries and other employee benefits	-	(205,553)	-	-
Other operating expenses	-	-	-	(219,965)
Financial service	(370,341)	-	-	-

18. EVENTS AFTER THE REPORTING PERIOD

Changes in Georgia legislation

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

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

Russia – Ukraine war

Russian federation launched a full-scale invasion of Ukraine on 24 February 2022, which is ongoing as for the date of the issue of the financial statements.

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

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

19. 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.

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SOLELY PAYMENTS OF PRINCIPAL AND INTEREST (SPPI)

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

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

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

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

DERECOGNITION OF FINANCIAL ASSETS

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

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

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.

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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.

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2021 and 2020:

	USD / GEL
Exchange rate as at 31 December 2021	3.0976
Exchange rate as at 31 December 2020	3.2766

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES

The Organisation as lessee

Identifying the lease

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

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

Initial recognition

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

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

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

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

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

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

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

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

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

Subsequent measurement

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

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.