MICROFINANCE ORGANISATION CENTRAL LLC

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the year ended 31 December 2022

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Tel: +995 32 2545 845
Tel: +995 32 2188 188
www.bdo.ge

2 Tarkhnishvili Street
Vere Business Center
0179 Tbilisi, Georgia

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of **Microfinance Organisation CENTRAL LLC**

Opinion

We have audited the financial statements of **Microfinance Organisation CENTRAL LLC**, (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.

Other information

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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

9 June 2023

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

(In Georgian Lari)

	Note	31 December 2022	31 December 2021
Assets			
Cash and cash equivalents	5	2,043,004	1,124,801
Financial assets at fair value through profit or loss	6	-	327,124
Loans to customers	7	6,166,863	4,672,851
Finance lease receivables	8	2,974,152	2,966,914
Other assets	11	625,455	406,311
Deferred tax asset	12	195,208	29,917
Right-of-use assets	10	441,403	574,917
Property and equipment	9	101,053	110,098
Total assets		**12,547,138**	**10,212,933**
Liabilities			
Financial liabilities at fair value through profit or loss	6	11,205	74,693
Other liabilities	14	74,129	66,115
Lease liabilities	10	412,991	623,919
Borrowings	13	5,713,247	4,431,267
Subordinated borrowings	13	1,433,819	1,643,745
Total liabilities		**7,645,391**	**6,839,739**
Equity			
Charter capital	15	8,167,886	7,457,706
Accumulated loss		(3,266,139)	(4,084,512)
Total equity		**4,901,747**	**3,373,194**
Total liabilities and equity		**12,547,138**	**10,212,933**

The financial statements for the year ended 31 December 2022 were approved on behalf of the management on 9 June 2023 by:

Chief Executive Officer ______________________ Imran Khizar Hayat

The notes on pages 9-38 form an integral part of these financial statements.

MICROFINANCE ORGANISATION CENTRAL LLC

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

(In Georgian Lari)

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STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

(In Georgian Lari)

	Note	2022	2021
Interest income	16	3,410,838	2,691,270
Interest expense	16	(575,374)	(430,359)
Net interest income before impairment		**2,835,464**	**2,260,911**
Loan impairment charge	7, 8	(149,380)	(230,258)
Net interest income		**2,686,084**	**2,030,653**
Net loss from trading in foreign currency		(859,280)	(189,898)
Income from penalties		448,234	363,912
Net loss on financial instruments at fair value through profit or loss	6	(4,593)	(99,245)
Salaries and other employee benefits		(1,309,791)	(1,175,034)
Depreciation and amortisation		(248,717)	(225,640)
Operating and other administrative expenses	17	(773,283)	(711,561)
Net gain from exchange rate differences		714,428	279,986
Income before tax		**653,082**	**273,173**
Income tax benefit/(expense)	10	165,291	(8,351)
Total comprehensive income		**818,373**	**264,822**

The notes on pages 9-38 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

(In Georgian Lari)

	Charter capital	Accumulated loss	Total
At 31 December 2020	**7,457,706**	**(4,349,334)**	**3,108,372**
Total comprehensive income for the year	-	264,822	**264,822**
At 31 December 2021	**7,457,706**	**(4,084,512)**	**3,373,194**
Cash contribution	710,180	-	**710,180**
Total comprehensive income for the year	-	818,373	**818,373**
At 31 December 2022	**8,167,886**	**(3,266,139)**	**4,901,747**

The notes on pages 9-38 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(In Georgian Lari)

	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before income tax		**653,082**	**273,173**
Adjustments for:			
Net change in interest accruals*		155,383	(79,685)
Loan impairment charge	7	149,380	230,258
Impairment of repossessed collaterals to net realisable value		52,682	35,245
Impairment of other receivables	11	15,649	11,742
Net loss on financial assets and liabilities at fair value through profit or loss		4,593	99,245
Depreciation and amortisation	10, 9	248,717	225,640
Modification (gain)/loss of contractual cash flows of financial assets	7	(10,990)	(56,154)
Loss from sale of repossessed collaterals		76,982	70,368
Net gain on foreign exchange operations		(714,428)	(279,986)
Cash inflow from operating activities before changes in operating assets and liabilities		**631,050**	**529,846**
Changes in operating assets and liabilities:			
Financial instruments at fair value through profit or loss		259,043	323,805
Loans to customers		(1,510,525)	(1,442,967)
Finance lease receivables		(26,087)	(900,858)
Other assets		(364,510)	(343,973)
Other liabilities		(82,084)	31,863
Net cash outflow from operating activities		**(1,093,113)**	**(1,802,284)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(25,313)	(51,032)
Net cash outflow from investing activities		**(25,313)**	**(51,032)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Receipt of borrowings	13	2,883,174	2,521,661
Repayment of borrowings	13	(992,953)	(1,103,884)
Lease liabilities paid		(216,113)	(184,849)
Proceeds from increase of charter capital	15	710,180	-
Net cash inflow from financing activities		**2,384,288**	**1,232,928**
Net increase/(decrease) in cash and cash equivalents		**1,265,862**	**(620,388)**
Cash and cash equivalents at the beginning of the period		**1,124,801**	**1,872,100**
Effect of exchange rate fluctuations on the cash and cash equivalents held in foreign currencies		(347,659)	(126,911)
Cash and cash equivalents at the end of the year		**2,043,004**	**1,124,801**

*Interest received by the Organisation during the year ended 31 December 2022 and 2021 amounted to GEL 3,161,513 and GEL 2,579,013, respectively.

Interest paid by the Organisation during the year ended 31 December 2022 and 2021 amounted to GEL 328,954 and GEL 379,200 respectively.

The notes on pages 9-38 form an integral part of these financial statements.

1. GENERAL INFORMATION

ORGANISATION

Microfinance Organisation Central is a Limited Liability Company (the "Organisation") which was established on 23 October 2015. It was registered at tax department office in Tbilisi, Georgia with the registration number 405121817.

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

The main activity of the Organisation is micro-financing. Financial products of the Organisation constitute small loans to individuals, small entrepreneurs of businesses in micro sector through Auto loans and Auto Lombard. The overall goal of the Organisation is to provide micro, small and medium entrepreneurs with the wherewithal to manage their financial resources efficiently and to improve income in agricultural, commercial, trading & manufacturing enterprises in the urban & rural areas by providing affordable financial assistance.

The Organisation's governing body is the General Meeting of Shareholders, Supervisory Board and CEO. The supervision of the Organisation's operations is conducted by the Supervisory Board, members of which are appointed by 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.

As at 31 December 2022 with the head office located on 2 Giorgi Saakadze II Ln, Tbilisi, Georgia, the Organisation had three branches in Tbilisi and one in Batumi as well.

Detailed information about shareholders is disclosed below in Note 15. The Organisation had no ultimate controlling party as at 31 December 2022 and 2021.

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 21.

BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost basis, except financial instruments at fair value through profit or loss.

GOING CONCERN

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

2. BASIS OF PREPARATION (CONTINUED)

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

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

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

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

b) New standards, interpretations and amendments not yet effective

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

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

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

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

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

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

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

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

MEASUREMENT OF EXPECTED CREDIT LOSSES

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

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

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

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

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

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

ASSESSMENT OF COLLATERAL VALUES

The management regularly reviews the market value of the collateral. Management uses best knowledge to updates the appraised values of collateral obtained at inception of the loan to the current values, taking into account the approximate changes in property values. The amount of collateral depends on the customer's credit risk.

TAXATION

The Organisation believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax results of these matters differ from the amounts in the existing accounting records, such differences will affect the tax expense in the period when such decision was made. The Organisation believes that it can justify its tax declarations and minimizes the risks related to this fact

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

Financial assets and financial liabilities that are liquid or have a short-term maturity 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 organisations finance function.

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

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

CREDIT RISK

Credit risk is the risk 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.

As the Organisation is providing micro-loans to customers as the core business activity credit risk is of crucial importance similar to any Micro Financing Organisations (MFO) risk management process. To avoid significant financial damage caused by this risk the Organisation uses various methods to identify and manage them effectively.

The Organisation continuously monitors the performance of individual credit exposures and branches and regularly reassesses the creditworthiness of its customers. The review is based on updated financial information of clients obtained by credit staff from monitoring.

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 (excluding cash on hand)	1,992,920	1,110,645
Financial assets at fair value through profit or loss	-	327,124
Loans to customers	6,166,863	4,672,851
Finance lease receivables	2,974,152	2,966,914
Other assets	175,746	93,668
	11,309,681	**9,171,202**

The Organisation's credit exposure related to loans to customers and finance lease receivables is disclosed in Notes 7 and 8.

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK

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

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 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Borrowings	210,920	3,508,682	2,140,116	856,368	**6,716,086**
Subordinated borrowings	79,832	238,555	1,148	1,432,746	**1,752,281**
Lease liabilities	11,940	32,820	75,140	66,640	**186,540**
Other liabilities	35,636	-	-	-	**35,636**
	338,328	**3,780,057**	**2,216,404**	**2,355,754**	**8,690,543**

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

Financial liabilities	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Financial liabilities at fair value through profit or loss	75,470	-	-	-	**75,470**
Borrowings	2,692,882	623,100	1,457,831	-	**4,773,813**
Subordinated borrowings	26,603	75,125	399,120	1,856,588	**2,357,436**
Lease liabilities	62,657	187,970	268,376	242,852	**761,855**
Other liabilities	1,590	-	-	-	**1,590**
	2,859,202	**886,195**	**2,125,327**	**2,099,440**	**7,970,164**

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)

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

Financial assets	**GEL**	**USD**	**EUR**	**Other**
Cash and cash equivalents	515,892	1,319,845	161,275	45,992
Loans to customers	6,166,863	-	-	-
Finance lease receivables	2,974,152	-	-	-
Other assets	175,746	-	-	-
	9,832,653	**1,319,845**	**161,275**	**45,992**
Financial liabilities				
Borrowings	-	5,713,247	-	-
Subordinated borrowings	-	1,433,819	-	-
Other liabilities	-	412,991	-	-
Lease liabilities	35,636	-	-	-
	35,636	**7,560,057**	**-**	**-**
The effect of derivatives held for risk management	(3,658,905)	3,672,238	-	-
Open balance sheet position	**6,138,112**	**(2,567,974)**	**161,275**	**45,992**

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

Financial assets	**GEL**	**USD**	**EUR**
Cash and cash equivalents	12,717	821,345	290,739
Loans to customers	4,672,851	-	-
Finance lease receivables	2,966,914	-	-
Other assets	93,668	-	-
	7,746,150	**821,345**	**290,739**
Financial liabilities			
Borrowings	-	4,431,267	-
Subordinated borrowings	-	1,643,745	-
Other liabilities	1,590	-	-
Lease liabilities	-	623,919	-
	1,590	**6,698,931**	**-**
The effect of derivatives held for risk management	(2,459,715)	2,477,010	-
Open balance sheet position	**5,284,845**	**(3,400,576)**	**290,739**

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

	(GEL / USD)		**(GEL / EUR)**	
Sensitivity of the fluctuation of the market exchange rates	**2022**	**2021**	**2022**	**2021**
20% increase	(513,595)	(680,115)	32,255	58,148
20% decrease	513,595	680,115	(32,255)	(58,148)

The analysis assumes that all other variables, in particular interest rates, remain constant.

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.

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

The information about maturities of interest-bearing financial liabilities is given in liquidity risk quantitative disclosures above.

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.

In order to maintain or adjust the capital structure, the Organisation may adjust the amount of dividends paid to shareholders, return capital to shareholders, or sell assets to reduce debt.

5. CASH AND CASH EQUIVALENTS

	31 December 2022	31 December 2021
Cash on hand	50,084	14,156
Cash at bank	1,992,920	1,110,645
	2,043,004	**1,124,801**

Cash and cash equivalents by currencies is disclosed in Note 4.

6. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2022	31 December 2021
Financial assets at fair value through profit or loss		
Currency swap contracts	-	309,760
Foreign currency forward contracts	-	17,364
	-	**327,124**

	31 December 2022	31 December 2021
Total financial liabilities at fair value through profit or loss		
Currency swap contracts	11,205	74,693
	11,205	**74,693**

Currency Swaps

The Organisation aggregates non-derivative transactions of back to back loans from banks guaranteed by foreign currency deposits placed at the same banks as derivative instruments, due to the fact that the transactions (placement of deposit and taking of the loan) result, in substance, in a derivative. The conclusion is based on the following indicators:

- They are entered into at the same time and in contemplation of one another;
- They have the same counterparty;
- They relate to the same risk;
- There is no apparent economic need or substantive business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction;
- There is an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and future settlement.

Foreign Currency Forward Contracts

Foreign Currency Forward Contracts are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts.

In a foreign currency forward, the Organisation pays a specified amount in one currency and receives a specified amount in another currency. Currency forwards are gross-settled.

The table below summarizes the undiscounted contractual amounts outstanding at 31 December 2021 and 2020 with remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts are recognized in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

Sell GEL to buy USD	31 December 2022	31 December 2021
Less than 3 months	3,658,905	2,459,715
	3,658,905	**2,459,715**

7. LOANS TO CUSTOMERS

	31 December 2022	31 December 2021
Originated loans to customers	6,325,677	4,843,639
Accrued interest	178,242	160,890
Gross loans to customers	**6,503,919**	**5,004,529**
Less: expected credit losses	(337,056)	(331,678)
Net loans to customers	**6,166,863**	**4,672,851**

All loans to customers are collateralised by cars as at 31 December 2022 and 2021.

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

	Gross Loans	ECL	Net Loans
Current and less than 30 days overdue	5,190,602	(36,859)	5,153,743
30 to 60 days overdue	52,538	(5,828)	46,710
60 to 90 days overdue	19,392	(4,089)	15,303
Over 90 days	168,315	(85,830)	82,485
Restructured (Less than 90)	708,624	(11,021)	697,603
Restructured (Over 90 Days)	364,448	(193,429)	171,019
	6,503,919	**(337,056)**	**6,166,863**

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

	Gross Loans	ECL	Net Loans
Current and less than 30 days overdue	3,730,773	(34,444)	3,696,329
30 to 60 days overdue	25,783	(3,539)	22,244
Over 90 days	209,951	(138,363)	71,588
Restructured (Less than 90)	832,771	(11,413)	821,358
Restructured (Over 90 Days)	205,251	(143,919)	61,332
	5,004,529	**(331,678)**	**4,672,851**

Movements in the loan impairment allowance for the year ended 31 December 2022 are as follows:

	Stage 1	Stage 2	Stage 3	Total
At the beginning of the year	**43,392**	**6,006**	**282,280**	**331,678**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(1,135)	1,135	-	-
Transfer to Stage 3	(101,299)	(2,468)	103,767	-
Loan impairment charge for the period	149,271	(3,053)	(106,788)	**39,430**
Repaid loans	(30,513)	(3,539)	-	**(34,052)**
Changes due to change in credit-risk	(15,854)	15,854	-	-
At the end of the year	**43,862**	**13,935**	**279,259**	**337,056**

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	Total
At the beginning of the year	**56,982**	**17,671**	**220,741**	**295,394**
Transfer to Stage 1	212	(212)	-	-
Transfer to Stage 2	(1,600)	1,600	-	-
Transfer to Stage 3	(67,083)	(33,710)	100,793	-
Loan impairment charge for the period	122,061	13,733	(80,440)	**55,354**
Repaid loans	(16,145)	(10)	(2,915)	**(19,070)**
Changes due to change in credit-risk	(51,035)	6,934	44,101	-
At the end of the year	**43,392**	**6,006**	**282,280**	**331,678**

Movements in the gross loans to customers for the year ended 31 December 2022 are as follows:

	Stage 1	Stage 2	Stage 3	Total
At the beginning of the year	**4,549,439**	**39,891**	**415,199**	**5,004,529**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(8,639)	8,639	-	-
Transfer to Stage 3	(198,107)	(4,513)	202,620	-
New financial assets originated	10,404,753			**10,404,753**
Changes due to change in credit-risk	(140,089)	109,839	30,250	-
Repaid loans	(8,738,739)	(56,678)	(98,811)	**(8,894,228)**
Modification of contractual cash flows of financial assets	10,319	84	587	**10,990**
Changes in interest accruals	5,121	6,835	(4,290)	**7,666**
Write-offs			(60,237)	**(60,237)**
Other movements	(19,343)	2,343	47,446	**30,446**
At the end of the year	**5,864,715**	**106,440**	**532,764**	**6,503,919**

Movements in the gross loans to customers for the year ended 31 December 2021 are as follows:

	Stage 1	Stage 2	Stage 3	Total
At the beginning of the year	**3,074,412**	**86,900**	**404,798**	**3,566,110**
Transfer to Stage 1	6,310	(6,310)	-	-
Transfer to Stage 2	(7,854)	7,854	-	-
Transfer to Stage 3	(98,974)	(45,523)	144,497	-
New financial assets originated	7,817,150	-	-	**7,817,150**
Changes due to change in credit-risk	(165,743)	45,780	119,963	-
Repaid loans	(6,264,641)	(9,288)	(100,254)	**(6,374,183)**
Modification of contractual cash flows of financial assets	54,008	6,871	(4,725)	**56,154**
Changes in interest accruals	52,456	6,405	37,402	**96,263**
Write-offs	-	-	(156,965)	**(156,965)**
Other movements	82,315	(52,798)	(29,517)	-
At the end of the year	**4,549,439**	**39,891**	**415,199**	**5,004,529**

8. FINANCE LEASE RECEIVABLES

	31 December 2022	31 December 2021
Principal	3,040,745	3,012,404
Interest receivable	71,083	72,210
Finance lease receivables	**3,111,828**	**3,084,614**
Less: expected credit losses	(137,676)	(117,700)
Net finance lease receivables	**2,974,152**	**2,966,914**

Reconciliation and maturity analysis of finance lease receivables:

	31 December 2022	31 December 2021
Less than 1 year	1,749,553	1,924,377
1-2 years	1,296,368	1,560,227
2-3 years	797,065	1,024,496
3-4 years	285,899	481,237
4-5 years	10,998	37,229
Total undiscounted lease payments	**4,139,883**	**5,027,566**
Unearned finance income relating to the lease payments receivable	(1,165,731)	(2,060,652)
Net investment in finance lease	**2,974,152**	**2,966,914**

Movements in impairment allowance of finance lease receivables for the year ended 31 December 2022 are as follows:

	Stage 1	Stage 2	Stage 3	Total
At the beginning of the year	**33,433**	**3,254**	**81,013**	**117,700**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(535)	535	-	-
Transfer to Stage 3	(33,694)	(2,689)	36,383	-
Loan impairment charge for the period	74,748	(10,474)	(23,176)	**41,098**
Repaid loans	(18,816)	(2,306)	-	**(21,122)**
Changes due to change in credit-risk	(31,279)	15,854	15,425	-
At the end of the year	**23,857**	**4,174**	**109,645**	**137,676**

Movements in impairment allowance of finance lease receivables for the year ended 31 December 2021 are as follows:

	Stage 1	Stage 2	Stage 3	Total
At the beginning of the year	**75,609**	**5,616**	**18,679**	**99,904**
Transfer to Stage 1	145	(145)	-	-
Transfer to Stage 2	(725)	725	-	-
Transfer to Stage 3	(29,922)	-	29,922	-
Loan impairment charge for the period	75,028	(5,366)	(2,150)	**67,512**
Repaid loans	(45,206)	(4,510)		**(49,716)**
Changes due to change in credit-risk	(41,496)	6,934	34,562	-
At the end of the year	**33,433**	**3,254**	**81,013**	**117,700**

9. OTHER ASSETS

	31 December 2022	31 December 2021
Financial receivables		
Other receivables*	191,395	105,410
ECL of other receivables*	(15,649)	(11,742)
	175,746	**93,668**
Non-financial receivables		
Repossessed collaterals**	443,066	305,318
Prepayments	6,643	7,325
	449,709	**312,643**
Total other assets	**625,455**	**406,311**

*Other receivables include police penalties paid from registered automobiles with finance lease agreement with amount of GEL 162,276. Related provision amounts GEL 15,649.

Movements in repossessed collaterals for the years ended 31 December 2022 and 2021 are as follows:

	31 December 2022	31 December 2021
At the beginning of the year	**305,318**	**145,856**
Additions	814,026	842,975
Disposals	(620,180)	(648,268)
Write down to net realisable value	(56,098)	(35,245)
At the end of the year	**443,066**	**305,318**

**Repossessed collaterals represent non-financial assets acquired by the Organisation to settle overdue loans. The assets are initially recognised at fair value when acquired and included in inventories within other assets depending on their nature and the Organisation's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies. Inventories of repossessed property are recorded at the lower of cost or net realisable value.

The Organisation expects to dispose these assets in the foreseeable future. Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

10. TAXATION

The tax effects of the movements in temporary differences recorded at the rate of 20% are as follows:

Temporary differences at a rate of 15% due to:	31 December 2020	Credited (charged) to profit or loss	31 December 2021	Credited (charged) to profit or loss	31 December 2022
Loans to customers	**53,097**	(43,930)	**9,167**	(9,167)	-
Finance lease receivables	**14,986**	2,669	**17,655**	(17,655)	-
Property and equipment	**8,505**	(1,079)	**7,426**	3,985	**11,411**
Right-of-use Assets	**(69,035)**	(17,203)	**(86,238)**	(2,043)	**(88,281)**
Lease liabilities	**86,172**	7,415	**93,587**	(10,991)	**82,596**
Borrowings	**12,626**	2,516	**15,142**	(3,894)	**11,248**
Other liabilities	-	-	-	6,200	**6,200**
Tax loss carry forward	**546,117**	(53,018)	**493,099**	55,772	**548,871**
Total temporary differences	**652,468**	**(102,630)**	**549,838**	**22,207**	**572,045**
Unrecognised deferred tax assets					
Loans to customers	**(53,097)**	43,930	**(9,167)**	9,167	-
Financial lease receivables	**(14,986)**	(2,669)	**(17,655)**	17,655	-
Tax loss carry forward	**(546,117)**	53,018	**(493,099)**	116,262	**(376,837)**
Deferred tax asset	**38,268**	**(8,351)**	**29,917**	**165,291**	**195,208**

10. TAXATION (CONTINUED)

Deferred tax asset has not been fully recognised in respect of tax losses carried forward giving rise to deferred tax asset as the management is not certain whether it is probable that these assets will be utilised during the reasonable period.

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

	2022	2021
Current income tax	-	-
Effect of temporary differences	165,291	(8,351)
Income tax (expense) / benefit	**165,291**	**(8,351)**

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

	2022	2021
Income/(loss) before income tax	**653,082**	**273,173**
Applicable tax rate	20%	15%
Theoretical income tax benefit/(expense)	**(130,616)**	**(40,976)**
Recovery of previously not recognized tax losses	116,262	53,018
Effect of permanent differences	179,645	(20,393)
Income tax benefit/(expense)	**165,291**	**(8,351)**

The tax effect of the movements in the temporary differences 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%).

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 lease of the head office is obtained from third parties. The renewal option is implied through customary business practices. Remaining lease terms are defined as one to ten years. Lease payments for these spaces are fixed over the lease term and are denominated in USD. Incremental borrowing rate used by Organisation in accounting for leases are 7% - 8.8% annually for each lease. 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	**574,917**	**460,230**
New lease contracts	-	280,685
Effect of modification to lease terms	80,845	15,801
Amortisation	(214,359)	(181,799)
At the end of the year	**441,403**	**574,917**

Lease liabilities can be presented as follows:

	2022	2021
At the beginning of the year	**623,919**	**574,484**
New lease contracts	-	280,685
Interest expense	45,819	58,907
Effect of modification to lease terms	80,845	15,801
Lease payments	(261,927)	(243,756)
Foreign exchange movements	(75,665)	(62,202)
At the end of the year	**412,991**	**623,919**

12. PROPERTY AND EQUIPMENT

Historical cost	Vehicles	Computers and other technical equipment	Leasehold Improvements	Furniture and fixture	Other	Total
At 31 December 2020	**65,672**	**111,910**	**75,337**	**37,492**	**23,933**	**314,344**
Additions	-	22,940	6,672	8,018	13,402	**51,032**
At 31 December 2021	**65,672**	**134,850**	**82,009**	**45,510**	**37,335**	**365,376**
Additions	-	10,576	12,157	2,580	-	**25,313**
At 31 December 2022	**65,672**	**145,426**	**94,166**	**48,090**	**37,334**	**390,688**
Accumulated depreciation						
At 31 December 2020	**(1,834)**	**(82,244)**	**(70,399)**	**(33,397)**	**(23,563)**	**(211,437)**
Depreciation charge	(13,134)	(13,897)	(5,589)	(4,500)	(6,721)	**(43,841)**
At 31 December 2021	**(14,968)**	**(96,141)**	**(75,988)**	**(37,897)**	**(30,284)**	**(255,278)**
Depreciation charge	(13,134)	(9,989)	(1,334)	(3,317)	(6,584)	**(34,358)**
At 31 December 2022	**(28,102)**	**(106,130)**	**(77,322)**	**(41,214)**	**(36,867)**	**(289,635)**
Net book value						
At 31 December 2021	**50,704**	**38,709**	**6,021**	**7,613**	**7,051**	**110,098**
At 31 December 2022	**37,570**	**39,296**	**16,844**	**6,876**	**467**	**101,053**

13. OTHER LIABILITIES

	31 December 2022	31 December 2021
Salaries payable	31,000	-
Taxes payable	13,424	31,882
Received advances	-	22,314
Overpayments	25,069	10,329
Other	4,636	1,590
	74,129	**66,115**

14. BORROWINGS AND SUBORDINATED BORROWINGS

Borrowings from:	Currency	Interest rate	Maturity date	31 December 2022 Principal	31 December 2022 Interest
Other individuals	USD	3.5%-9.5%	Jan 2022 - Aug 2024	2,218,219	54,128
Shareholders	USD	6.5%-9%	Nov 2022 - June 2023	2,079,060	2,112
Related parties	USD	8.43-8.5%	Feb 2022 - Aug 2024	1,351,000	8,728
				5,648,279	**64,968**

Borrowings from:	Currency	Interest rate	Maturity date	31 December 2021 Principal	31 December 2021 Interest
Related parties	USD	8.5%	Feb 2022 - Aug 2024	1,548,800	12,589
Shareholders	USD	8%-9%	Nov 2022 - June 2023	252,396	5,250
Other individuals	USD	3.5%-9.5%	Jan 2022 - Aug 2024	2,516,535	95,697
				4,317,731	**113,536**

Subordinated borrowings from:	Currency	Interest rate	Maturity date	31 December 2022	31 December 2021
Shareholders	USD	6%-6.3%	Nov 2028 - Nov 2029	1,433,819	1,643,745
				1,433,819	**1,643,745**

According to the agreement the Organisation initially pays the interest accrued on the principal amount of the loan, and the principal amount will be paid for the completion of the contract.

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	**6,075,012**	**5,003,915**
Proceed in borrowings	2,883,174	2,521,661
Repayment of borrowings	(992,953)	(1,103,884)
Interest paid	(328,954)	(379,200)
Non-cash flows:		
Interest accruing in period	529,555	371,452
Effects of foreign exchange	(1,018,768)	(338,932)
At the end of the year	**7,147,066**	**6,075,012**

15. CHARTER CAPITAL

	31 December 2022		31 December 2021	
Shareholders	**Percent**	**Amount**	**Percent**	**Amount**
Imran Khizar Hayat	20%	1,633,578	20%	1,491,542
Rukhsana Bashir	16%	1,306,862	16%	1,193,233
Shaukat Ullah Khan Bangash	11.5%	939,307	11.5%	857,636
Muhammad Ali	8.5%	694,270	8.5%	633,905
Zubair Ullah Khan Bangash	8.5%	694,270	8.5%	633,905
Muhammad Abdullah Khan Bangash	8%	653,431	8%	596,616
Atif Ullah Khan Bangash	8%	653,431	8%	596,616
Fahd Ali Sheikh	6%	490,073	6%	447,463
Hiba Sheikh	5.5%	449,234	5.5%	410,174
Osman Bashir	4%	326,715	4%	298,308
Kifayat Ullah Khan Bangash	4%	326,715	4%	298,308
	100%	**8,167,886**	**100%**	**7,457,706**

In 2022 charter capital was increased by GEL 710,180 with cash contribution.

16. NET INTEREST INCOME

Interest income is arising from:	**2022**	**2021**
Loans to customers	2,192,033	1,579,189
Finance income	1,207,815	1,054,731
Modification	10,990	56,154
Placements with banks	-	1,196
	3,410,838	**2,691,270**

Interest expense is arising from:	**2022**	**2021**
Borrowings from shareholders	(155,326)	(23,299)
Borrowings from related parties	(121,919)	(133,662)
Borrowings from other individuals	(158,379)	(110,726)
Subordinated borrowings	(93,931)	(103,765)
Interest expense for leases	(45,819)	(58,907)
	(575,374)	**(430,359)**
Net interest income	**2,835,464**	**2,260,911**

17. OTHER OPERATING EXPENSES

	2022	2021
Advertising	(113,632)	(71,665)
Software support	(107,971)	(102,873)
Taxes other than income tax	(88,367)	(71,512)
Consulting and other professional services*	(86,872)	(86,665)
Loss from the sale of the Repossessed property	(76,982)	(70,368)
Impairment of repossessed collaterals	(56,098)	(35,245)
Expenses related to loan collection	(52,682)	(55,277)
Utilities	(41,791)	(33,336)
office expenses	(33,222)	(33,220)
Application inspection expenses	(25,471)	(28,526)
Communication	(24,521)	(20,737)
Security	(13,823)	(11,212)
Business trip	(13,215)	(8,046)
Transportation and fuel costs	(12,001)	(23,488)
Fines and penalties	(5,702)	(37,742)
Other	(20,933)	(21,649)
	(773,283)	**(711,561)**

*Consulting and other professional services include audit fees with amount of GEL26,274 and GEL28,457 excluding VAT for the years ended 31 December 2022 and 2021, respectively.

18. COMMITMENTS AND CONTINGENCIES

LITIGATION

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

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

Management is unaware of any significant actual, pending or threatened claims against the Organisation.

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 yet fulfilled this obligation at the date of issue of the financial statements.

REGULATIONS OF NATIONAL BANK OF GEORGIA

Starting from 1 September 2018, the Organisation also has to comply with the financial covenants established by the National Bank of Georgia (NBG), such as: capital adequacy, liquidity, property investment, investment, related party exposure and pledged assets ratios. The compliance with these ratios is monitored by the NBG on a monthly basis.

18. COMMITMENTS AND CONTINGENCIES (CONTINUED)

According to the NBG regulations, the Organisation has to hold minimum level of CAR in accordance with the below schedule:

• 1 July 2019 onwards – at least 18%

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

	31 December 2022	31 December 2021
Charter capital	8,167,886	7,457,706
Retained earnings	(3,266,139)	(4,084,512)
Eligible subordinated debt	1,433,819	1,643,745
Regulatory capital	**6,335,566**	**5,016,939**

	31 December 2022	31 December 2021
Total assets	**12,547,138**	**10,212,933**

	31 December 2022	31 December 2021
Capital adequacy ratio	**50%**	**49%**

19. TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

Related party balances and transactions as and for the year ended 31 December 2022:

Financial statement caption	Shareholders	Key management	Other related parties
Borrowings	2,081,172	-	2,272,347
Subordinated borrowings	1,433,819	-	-
Interest expense on borrowings	(155,326)	-	(121,919)
Interest expense on subordinated borrowings	(93,931)	-	-
Salaries and other employee benefits	(487,240)	(76,796)	-

19. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

Financial statement caption	Shareholders	Key management	Other related parties
Borrowings	257,646	-	1,561,389
Subordinated borrowings	1,643,745	-	-
Interest expense on borrowings	(23,299)	-	(133,662)
Interest expense on subordinated borrowings	(103,765)	-	-
Salaries and other employee benefits	(487,240)	(76,796)	-

20. EVENTS AFTER THE REPORTING PERIOD

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

21. 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 (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Organisation recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Organisation recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognised.

FINANCIAL ASSETS

Classification and subsequent measurement

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

FINANCIAL ASSETS AT AMORTISED COST

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.

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Changes to the impairment estimation

The adoption of IFRS 9 has fundamentally changed the Organisation's accounting for loan loss impairment by replacing IAS 39's incurred loss approach with forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Organisation to record ECL on all of its debt financial assets at amortised cost or FVOCI. The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

From 1 January 2018 the Organisation recorded the allowance for expected credit loss for all debt instruments that are measured at amortised cost.

The determination of impairment losses and allowance moves from an incurred credit loss model whereby credit losses are recognised when a defined loss event occurs under IAS 39, to an expected credit loss model under IFRS 9, where provisions are taken upon initial recognition of the financial instruments. Under IFRS 9, the Organisation first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

Collectively assessed loans are grouped on the basis of shared credit risk characteristics and collateral 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.

21. 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 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.

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.

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Exposure at default (EAD)

Exposure of default (EAD): The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial asset. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals discounted at the EIR.

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.

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.

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE MEASUREMENT HIERARCHY

IFRS 13 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Derivative Financial instruments measured at fair value by the level 2 in the fair value hierarchy are presented in Notes 6.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, and all bank placements or receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents.

PROPERTY AND EQUIPMENT

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and recognised impairment loss, if any. Depreciation is charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight-line basis over 5 year.

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.

CHARTER CAPITAL AND DIVIDENDS

Equity includes charter capital and retained earnings. 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.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCE LEASE RECEIVABLES

Financial asset is recognized as a finance lease receivable when substantially all the risks and rewards are transferred incidental to ownership of an asset. Title may or may not eventually be transferred.

Finance lease in the statement of financial position is presented as a receivable in the scope of IAS 17 at an amount equal to the net investment in the lease. Under a finance lease substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, and thus the lease payment receivable is treated by the lessor as repayment of principal and finance income to reimburse and reward the lessor for its investment and services.

Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income by a seller-lessee. Instead, it shall be deferred and amortised over the lease term.

If the leaseback is a finance lease, the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security. For this reason, it is not appropriate to regard an excess of sales proceeds over the carrying amount as income. Such excess is deferred and amortised over the lease term.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

- A contract (through its explicit or implicit terms);
- Legislation; or
- Other operation of law.

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

- By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

The term 'contingent liability' is used for liabilities that do not meet the recognition criteria. Accounting policy distinguishes between:

- provisions - which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and
- contingent liabilities - which are not recognised as liabilities because they are either:
  - possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits; or
  - present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

Contingent assets are not reflected in the financial statements, but the information on them is disclosed when inflow of economic benefits is possible. If economic benefits are sure to occur, an asset and related income are recognized in the financial statements for the year, when the evaluation change occurred.

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.

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

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

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

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.

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECOGNITION OF EXPENSES

Expenses are recognised in the statement of comprehensive income if there arises any decrease of future economic profit related to the decrease of an asset or increase of a liability that can be reliably assessed.

Expenses are recognized in the statement of comprehensive income immediately, if the expenses do not result in future economic profit any more, or if future economic profit do not meet or stop to meet the requirements of recognition as an asset in the balance sheet.

LEASES

The Organisation as lessee

Identifying the lease

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

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

Initial recognition

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

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

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

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

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

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

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

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

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

Subsequent measurement

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

21. 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.

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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 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 the Organisation's functional currency at year-end official exchange rates are recognised in the statement of comprehensive income. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

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

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