crystal
Financial Inclusion Organization

INTEGRATED REPORT 2021

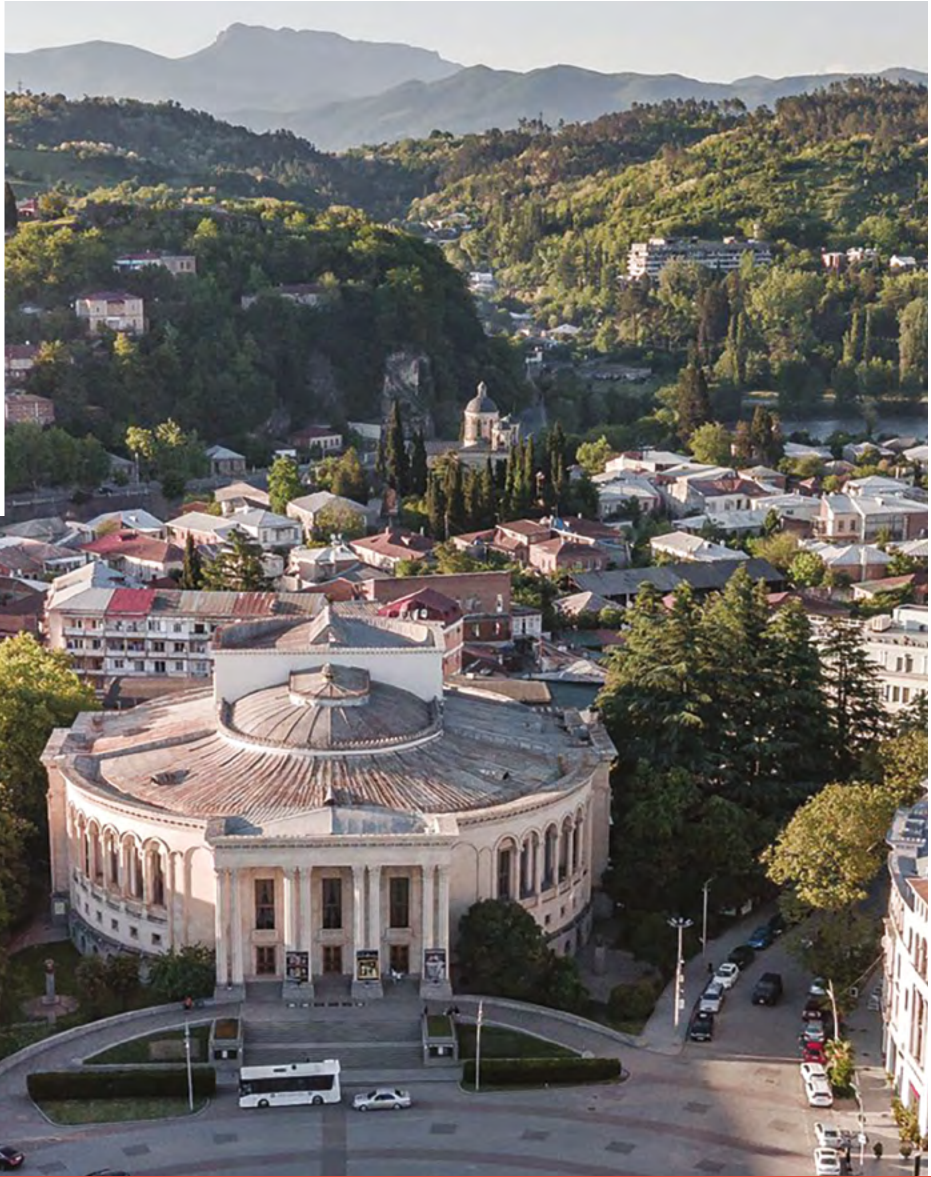
About Us

JSC MFO Crystal ('Crystal') is a leading financial inclusion organisation and, by assets, the largest non-banking financial institution in Georgia. The company manages a loan portfolio of GEL 348 million, employs around 1,000 members of staff, operates via 50 branches and serves up to 120,000 unique customers across the country. Crystal acts as a platform for economic development, providing farmers and micro and small entrepreneurs with innovative financial products and services tailored to their needs. Crystal is also the first Fitch-rated non-banking financial institution in the region (Rating B- Stable). The company additionally received an A social rating in 2020 from MicroFinanza, the Global Rating Agency.

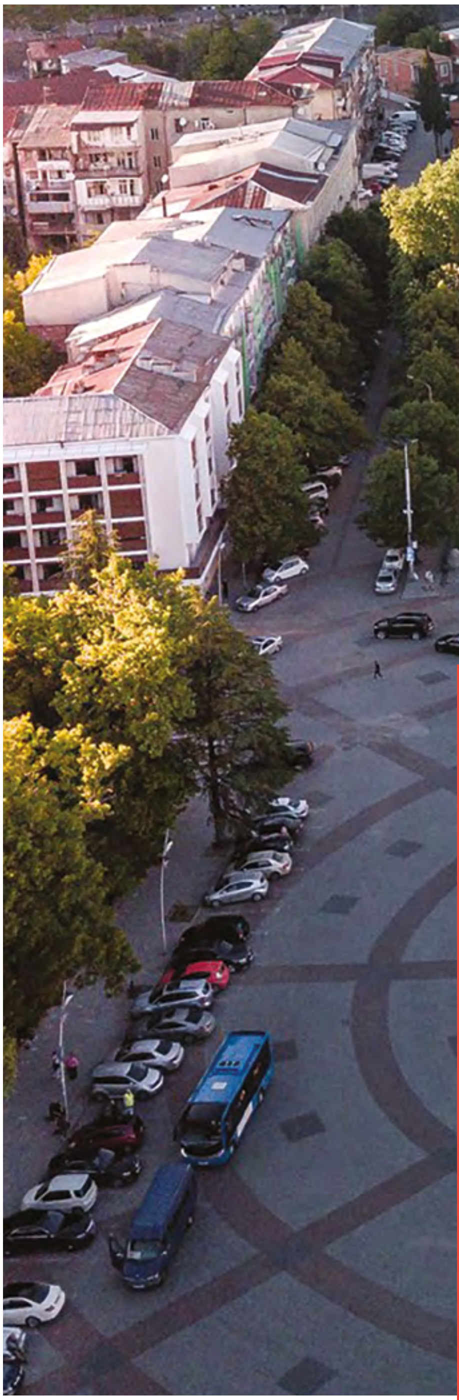
In 2021 Crystal was recipient of a major award from the Millennium Challenge Corporation for the projects aimed at empowering and supporting women in Georgia. International Microfinance Association (MFC) has named Crystal's "Green Line" among the 5 best initiatives worldwide. Crystal has also been announced a winner at the Best Annual Report and Transparency Competition (BARTA) for the third year in a row. This recognition puts us in the ranks of successful large financial institutions in Georgia and underscores our rightful aspirations towards banking.

STRATEGIC REPORT

Crystal's vision is to become a leading regional customer-centric, people-oriented and data-driven financial inclusion organisation.



At a Glance



Crystal is the development platform for micro and small entrepreneurs, which aims to defeat poverty in Georgia through promoting entrepreneurship in a financially, socially and environmentally sustainable way. Crystal's comparative advantage is that we view ourselves as a platform for development for our customers. Our solutions-based approach helps us to move away from the sole focus on provision of credit. Financial inclusion requires access to more services, such as current account, insurance, as well as an array of non-financial services, including business and financial advice, technological stack, together with knowledge, information, networking and leadership development opportunities.

Crystal is the largest by assets non-banking financial institution in Georgia, managing the loan portfolio of GEL 348 million, employing around 1,000 members of staff, operating through 50 branches and serving up to 120,000 unique customers across Georgia. Crystal's institutional shareholders are Incofin IM and Developing World Markets. Company enjoys a longstanding relationship with up to 25 lenders, including international Microfinance Investment Vehicles, Development Financial Institutions and local banks.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

NET PROFIT

Δ	2021	2020
+473.24%	3,180	(852)

TOTAL ASSETS

Δ	2021	2020
+8.22%	396,179	366,074

LOAN PORTFOLIO

Δ	2021	2020
+10.15%	347,941	315,880

TOTAL EQUITY

Δ	2021	2020
+3.76%	60,195	58,011

ROA

Δ	2021	2020
+107 bps	0.83%	-0.24%

ROE

Δ	2021	2020
+683 bps	5.38%	-1.45%

NPL

Δ	2021	2020
-165 bps	6.14%	7.79%

COST OF RISK

Δ	2021	2020
-91 bps	0.77%	1.68%

COST to INCOME
(incl. cost of funding)

Δ	2021	2020
+1,578 bps	87.90%	72.12%

BRANCHES

Δ	2021	2020
0.00%	50	50

CUSTOMERS

Δ	2021	2020
+6.09%	119,775	112,903

EMPLOYEES

Δ	2021	2020
-3.95%	996	1,037

Chair's Statement

Archil Bakuradze
Chair of Supervisory Board

Dear Shareholders and Stakeholders,

We are pleased to report on Crystal's progress for the year 2021.

The top factors dominating our operation were the continuing pandemic, the high monetary policy rate due to inflationary pressures, and a high employee turnover.

Although Georgia learnt to live with COVID-19, it still took an unprecedented toll on people's lives, and it affected the health of our customers and staff. We would therefore like to commend the management's successful vaccination campaign, which helped reach a staff vaccination level of 75% by the end of 2021.

The National Bank of Georgia's tight monetary policy, in response to increased levels of inflation, reached 10.5% (YoY growth of 250 bps). Taking account of Crystal's reliance on hedging instruments, usually carrying the floating rate, the MPR affected a high funding cost. This was partly compensated by our increased interest yield of 26.9% (YoY growth of 240 bps), which was primarily achieved through the company's focus on the microfinance segment.

Relatively high staff turnover, characterised by the post-COVID job market, predominantly affected Crystal's HQ, especially in technology-related careers. Nevertheless, the company has successfully responded to the demands of the operating environment and the complex process of bank transformation.

Resultingly, Crystal has managed to expand the loan portfolio by 10.1%, substantially improving its assets quality and, despite the aforementioned pressures, demonstrated a Return on Equity of 5.4% – a material improvement from previous years. Although our operating cost was affected by active bank transformation efforts, Crystal managed to keep the Cost to Income Ratio at 87.9%.

We maintained a healthy capital adequacy (CAR NBG – 20.5%, CAR IFRS – 17.6%) and desired level of liquidity. While our diversity of lenders and diminishing cost of borrowing further demonstrated Crystal's attractiveness for international creditors and local commercial banks.

In 2021, the Management and the Supervisory Board placed substantial efforts into preparation for the banking license. This involved not only replacing the core banking system, the design of new systems and policies, and a qualitatively new approach to risk governance, but also a material revamping of Crystal's corporate governance. In light of a professional consultancy project by Nestor Advisors, we have decided to increase the independence and diversity of the Supervisory Board, and bring our system of corporate governance in line with best international standards. This will translate into the appointment of new independent members, a revised structure of the SB committees and enhanced effectiveness of the Board itself.

During the production of this annual report, Georgia and the rest of the world witnessed the Russian Federation's unprecedented aggression towards Ukraine. We cannot ignore this significant development in the region, which poses certain risks to the economic and the security outlook of the country. If this conflict is contained and resolved in the medium term, it should have a limited impact on Crystal's financial performance. In this case, we continue to project another successful year – one characterised by steady improvements in financial performance and the successful completion of bank transformation. This will set Crystal on a new growth trajectory, allowing the fulfillment of our ambitious financial, social and environmental targets.

Chief Executive Officer's Letter

Ilia Revia
Chief Executive Officer

I am updating this report with a heavy heart. As terrible conflict continues, hearts and minds of entire Georgia are with citizens of Ukraine. Our immediate response has been to partner with other businesses to support Ukrainians coming to Georgia and to send humanitarian aid to Ukraine. We hope and pray for the war and related suffering to be over soon, and that conflict is peacefully and justly resolved with active involvement of international community. At the same time, it is reassuring that Georgia has maintained stable political and economic position and strong macroeconomic recovery trend, despite the ongoing regional crisis. This factor, strengthened by Crystal's historical resilience to major externalities and our agility, gives me assurance that company will manage successfully though these challenging times.

Dear Stakeholders,

2021 was a year of hard work and resulting recovery from Covid-19 related crisis, both for Georgia's economy and Crystal as well. After successfully weathering global crisis induced by the pandemic, company has made strides in return to profitability, at the same time significantly strengthening our institutional capabilities by managing major improvements in the organizational structure, processes, and systems.

I feel proud of what we accomplished in 2021. Last year, despite the challenges of the pandemic and uncertain business environment, our company has remained resilient. We have focused on returning to profitability, which was successfully managed despite significant increases in cost of doing business, tightening regulatory requirements, high inflation, and record-breaking refinancing rate. In terms of business, we've taken major steps to further increase the accessibility of our services and products, introducing better remote sales capabilities, fully centralizing business directorate, and switching to a 6 day work week in the branches. To improve underwriting processes, we successfully completed integration with Georgia's revenue service, allowing us to promptly verify client income and speed up credit decisioning processes.

Simultaneously, we remained forward-thinking, by actively working towards strategic goal of banking transformation, and successfully replaced legacy MFI software, with core banking system from local reputable vendor – Alta. The introduction of a new core system was pivotal, as it scaled up the internal organizational business processes to an advanced level. Crystal is now able to develop and market financial products which are more competitive and tailored to specific business needs. Alongside the introduction of new core system, server, and network infrastructure in the main data center of the company has been upgraded and new network security systems have been embedded. As a result, the service quality has significantly improved for our customers.

We embarked on large-scale organizational changes with a view to approximating the organizational structure of Crystal to that of the banks. Action plan was outlined for banking transformation program, and activities launched in the direction becoming compliance with banking requirements, simultaneously strengthening risk management and governance processes of Crystal. Risk Directorate was established bringing together management of the Credit and Operational risk, Problem loans, AML & Compliance and Control departments. As a result, the company has received a centralized risk management platform in line with the core principle of the banking regulation.

People Directorate has been revamped in a new form. Apart from Marketing and HR, it is currently in charge of Communications, Administration and Logistics. Past year was replete with challenges for this reformed team: HRMS software was upgraded, more than 220 new employees were hired over the year, and ALTA trainings were provided to 800 strong staff.

2021 proved particularly fruitful for our finance team, IFRS 9 provisioning methodology has been refined and partially automated. Shift to the new model has brought positive impact on the company's profitability, while also reflecting the best market practices. Budgeting module (ERP) was also launched, allowing us to track budget implementation. Investor relations team raised investments worth of USD 50 million, acquiring reputable large partners and further solidifying Crystal's international image as a reliable and sustainable financial institution. It is noteworthy, that due to increased

As a result of our diligent activities, our ROE has reached 5.4%, improving by 680 bps from the 2020 results, portfolio grew by 10.1 % and number of customers has reached 119,775.

access to foreign capital and new credit facilities, Fitch Ratings improved credit rating of "Crystal" to B- Stable. The company considerably improved its reporting, financial planning, cost control and procurement procedures.

Development of the leasing line merits a separate place. In 2021, with the support of "Enterprise Georgia", we started to offer leasing to our clients with state co-financing. Leasing portfolio reached 5,662 mln. All our good work was hardly left without notice, with Crystal receiving significant recognitions for the way it does business:

- Crystal has received a major award from the Millennium Challenge Corporation for the projects aimed at empowering and supporting women in Georgia
- International Microfinance Association (MFC) has named the company's "Green Line" among the 5 best initiatives worldwide.
- "Crystal" has been announced a winner at the Best Annual Report and Transparency Competition (BARTA) for the third year in a row. This recognition puts us in the ranks of successful large financial institutions in Georgia and underscores our rightful aspirations towards banking.

Implementation of such large-scale projects and changes, required mutual understanding, appreciation and respect for each other's work and constant individual and collective learning. Although 2021 abounded with lot of market uncertainty, strong teamwork and managerial foresight helped us successfully manage such significant changes.

Amidst the global crisis, the success of "Crystal" has a positive impact not only on the sustainable development of our company, but also on the entrepreneurship and economic recovery of Georgia as a whole. Therefore, I believe we will keep on the same track next year as well. We are ready to confront the challenges lying ahead with new plans and new projects. Through joint team efforts, we will manage to turn Crystal into an even more successful and robust financial institution. The key priorities for 2022, are as follows:

1. Successful completion of the Banking Transformation Program
2. Automation of the loan application and decision-making process
3. Further improvement of the financial results
4. Strengthening organizational capabilities

Our people bring success to Crystal!

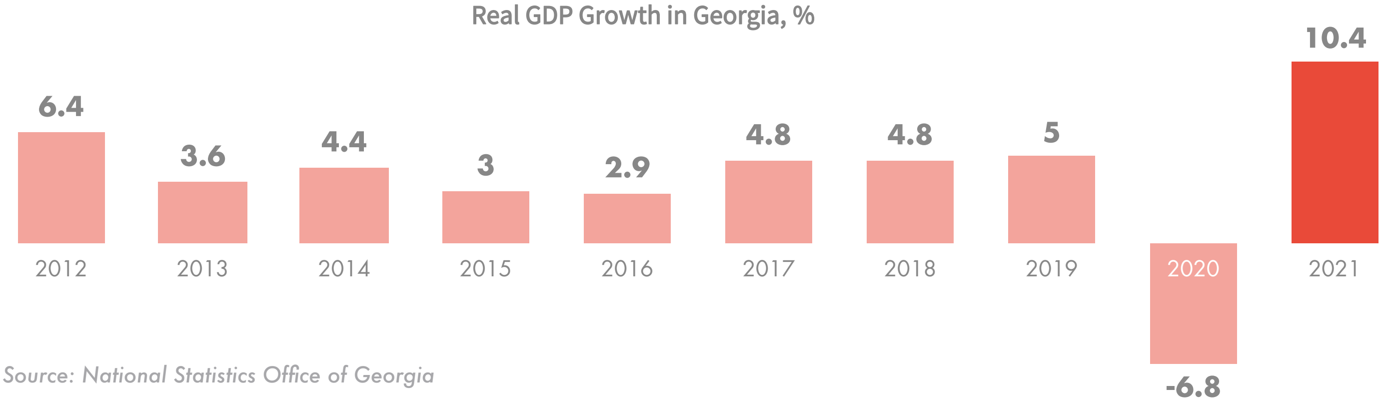
I can not thank the incredible Crystal team enough, alongside all our stakeholders and partners. I am truly humbled by and beyond appreciative for the relentless commitment of our staff in continually serving our customers, dedication to their work and genuine care for each other. Our resilience, while a product of many factors, is primarily due to our 1,000 professionals across Georgia.

Macroeconomic and Market Overview

GROSS DOMESTIC PRODUCT

In 2021, the COVID-19 vaccination process and the governmental decision to lift most restrictions positively affected the Georgian economy. In particular, tourism revenues increased by almost 120%. Remittances significantly increased as well, showing a 24.6% rise compared to the previous year. Additionally, Foreign Direct Investments (FDI) grew (101%), while the Current Account (CA) deficit reduced to 8.4%. A sharp rise in lending also had a substantial impact, the share of which amounted to 12.2% of total GDP growth. Consequently, nominal economic growth of 22.8% was observed in 2021, however, due to high inflation, real GDP growth amounted to 10.4%. In 2022, due to the transmissibility of the Omicron variant and vaccination rates of approximately 40%, Georgia almost entirely opened its economy and lifted many restrictions.

Real GDP Growth in Georgia, %



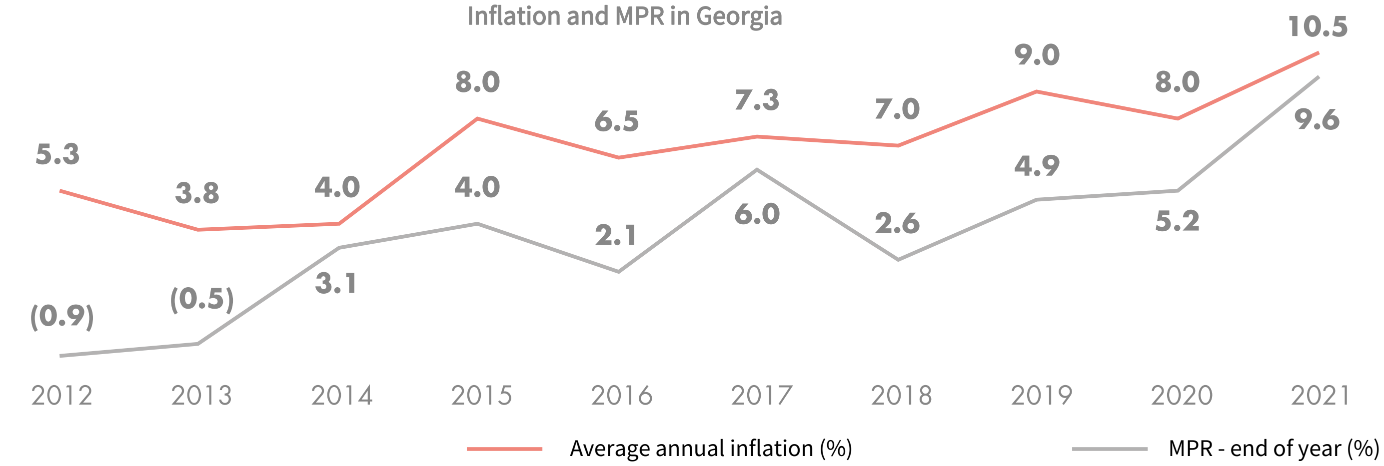
Source: National Statistics Office of Georgia

INFLATION AND MONETARY POLICY RATE

The restrictions introduced in response to the COVID-19 pandemic in 2020-2021 increased production costs, leading to inflation risks and resulting in a high National Bank of Georgia monetary policy rate (MPR) over the entire year. Because pandemic-related factors affected inflation and boosted oil and food prices on international markets, the average annual inflation increased by 4.4 pp compared to 2020, and equalled 9.6%. In addition, there were tensions in the Caucasus region (the war between Azerbaijan and Armenia), alongside an election cycle in Georgia and fiscal stimulation from the government. In general, inflation has remained a significant global challenge since the start of the pandemic.

To harness inflation, the regulator increased the monetary policy rate several times throughout 2021. In total, the rate increased by 2.5 pp across the year and equalled 10.5%.

Inflation and MPR in Georgia



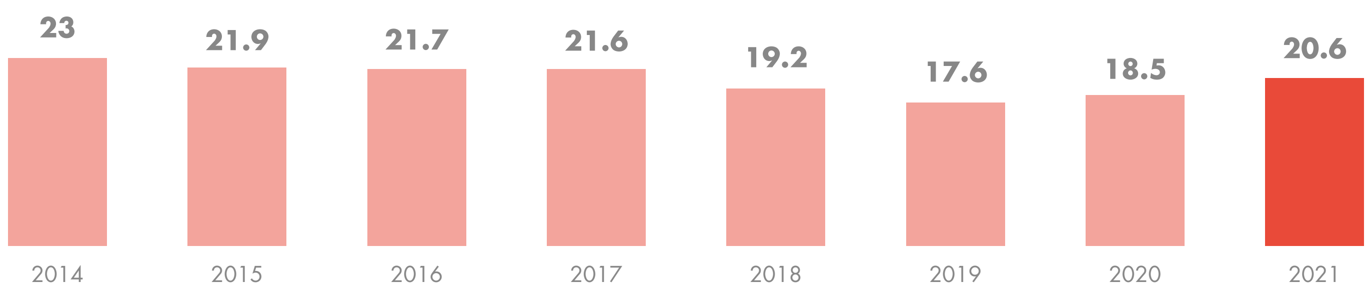
Source: National Statistics Office of Georgia and National Bank

EMPLOYMENT AND UNEMPLOYMENT

Starting from 2020, the National Statistics Office of Georgia updated its employment calculation methodology. Under the new methodology, those working in their own households and manufacturing products primarily for personal consumption will no longer be considered self-employed. Such individuals have been reclassified into other categories among the unemployed or those outside the labour force. As a result of this new standard, a recalculation of historical data was required and the National Statistics Office of Georgia has subsequently updated the data since 2010.

Compared to 2020, the unemployment level increased by 2.1 pp in 2021, equalling 20.6%. This was largely instigated by the pandemic and the related crisis. In particular, sharp deterioration in tourism substantially reduced the number of employees in the sector; where tourism held a significant share in the pre-pandemic economy.

Unenemployment Levels in Georgia, %



Source: National Statistics Office of Georgia

EXPORT AND IMPORT

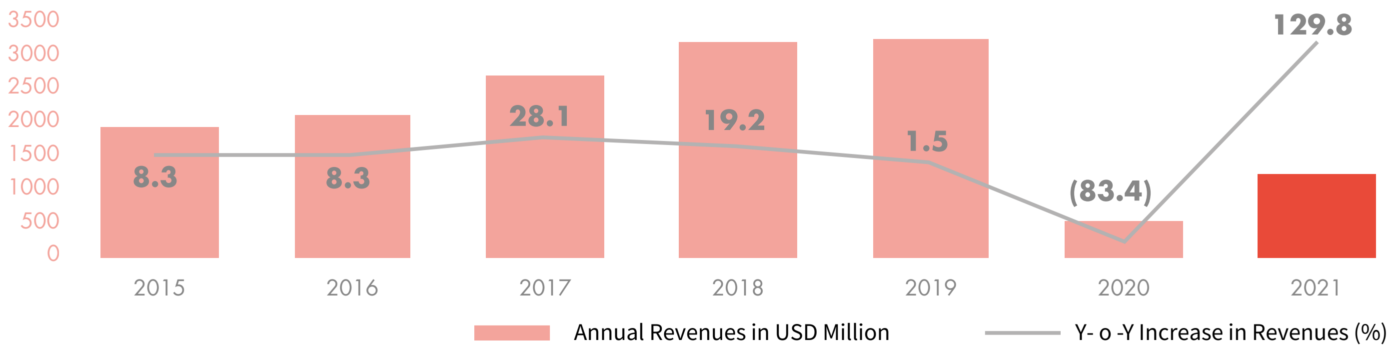
As the economy reopened in 2021, the export of goods amounted to 4.2 billion USD – 27% more compared to the previous year. The most notable contributors were the CIS at 47.6% and the EU at 16.9%.

Opening the economy, the partial recovery of tourism, appreciation of the national currency and the rise of remittances each increased internal demand; with the import of goods amounting to 10.1 billion USD in 2021, which equates to 25.5% more than the previous year. While the major contributors to import were the CIS 27.9%, the EU 22.9% and Turkey 18.1%.

TOURISM

According to the preliminary data, in 2021 almost all economic sectors recovered by 100-120% compared to 2019; with the exception of tourism, which is still facing significant challenges. Tourism and related sectors showed an approximately 40% recovery in 2021 compared to 2019, although 130% growth was observed in comparison to 2020. In total, the revenues from tourism exceeded USD 1,245 million.

Revenues from tourism in Georgia



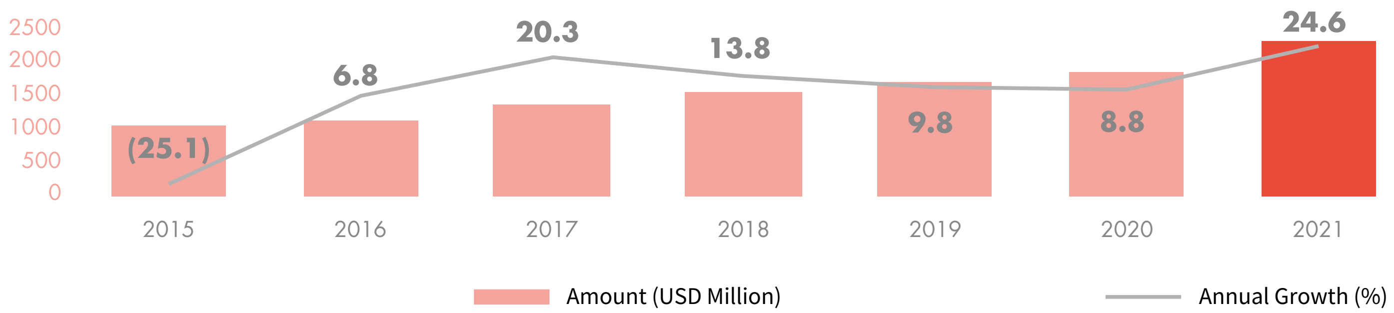
Source: National Bank of Georgia

REMITTANCES

The flow of remittances increased by 24.6% (USD 464 million) YoY in 2021 and amounted to USD 2,350 million.

A significant share of remittances came from Russia, at 18.8% (441.4 USD million, indicating an increased share of 3.6 pp YoY); followed by Italy with 16.4% (USD 385.7 million, a rise of 5.7 pp YoY); then the USA with 12.1% (284.3 USD million, 1.9 pp growth YoY); and Greece with 10.2% (240.1 USD million, an increased share of 1.9 pp YoY).

Inflow of remittances in Georgia

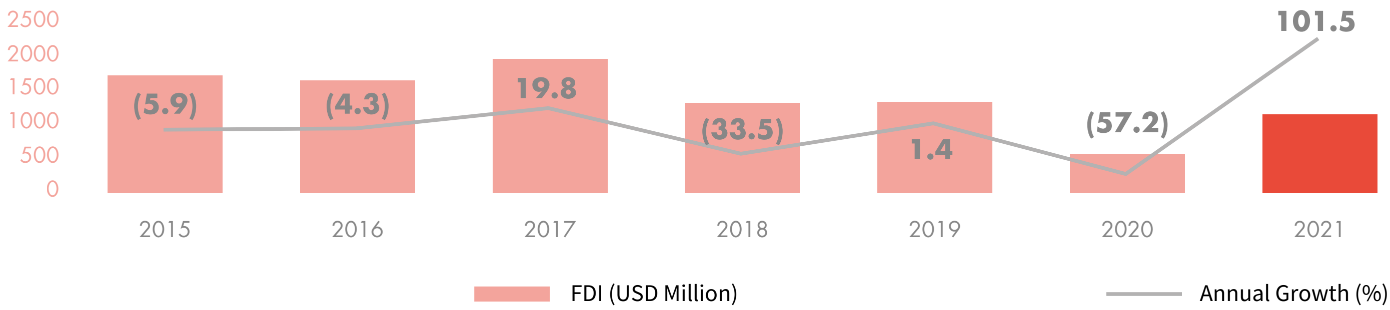


Source: National Bank of Georgia

FOREIGN DIRECT INVESTMENTS

According to the preliminary data, in 2020 Foreign Direct Investment (FDI) inflows amounted to USD 1,153 million – 101.5% more than the specified data from 2020. This data indicates that the financial sector was the largest FDI recipient (at 38.5%), followed by entertainment, recreation and other services (20%), and energy (13.6%).

FDI in Georgia

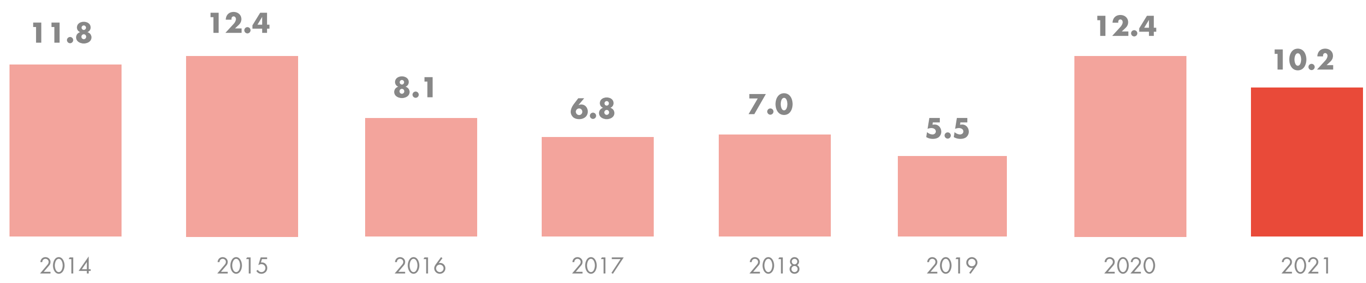


Source: National Statistics Office of Georgia

CURRENT ACCOUNT

Compared to 2020, significantly increased remittances, exports, FDI, revenues from tourism, appreciation of the currency, alongside the opening of the economy, all had a positive effect on the 2021 Current Account (CA) balance. The CA deficit amounted to 8.4% of the GDP in 2021.

CA Deficit to GDP in Georgia, %



Source: National Bank of Georgia

EXCHANGE RATES AND FOREIGN EXCHANGE RESERVES

In 2021, compared to 2020, the average annual GEL exchange rate depreciated by 3.6% against the USD, by 7.4% against the EUR and by 1.4% against the Russian ruble, whereas it appreciated by 15.8% against the Turkish lira.

Appreciation of the GEL exchange rate against the USD and EUR was reflected in the increase of NEER and REER – by 17.9 and 20.4% YoY, respectively. In 2021, the foreign currency reserve amounted to USD 3,784 million.

BUDGET DEFICIT AND GOVERNMENT DEBT TO GDP

The COVID-19 pandemic has negatively affected parameters of the state budget, consequently, in accordance with the preliminary data, the budget deficit in 2021 (in accordance with the IMF program) equated to 6.7% of GDP. This significantly exceeds the 3% recommended limit under the Maastricht criteria. However, some positive changes have been observed; in particular, the deficit is 2.6 pp lower than the comparable data from 2020.

Under preliminary 2021 data, the government debt to GDP ratio amounted to 49.9% – 10.6 pp less than similar data from 2020. This was largely due to positive trends in economic recovery and appreciation of the USD exchange rate (the foremost Georgian governmental debt is in USD).

LENDING MARKET

The lending market has been defined for commercial banks and microfinance portfolios with contracts for the disbursement of loans up to 100,000 GEL and a maximum maturity period of five years for resident households.

Compared to the previous year, the portfolios of commercial banks in 2021 increased by 23.88% (GEL 1,430 million) YoY and amounted to GEL 7,421 million. Whereas, microfinance organisations' portfolios grew by 14.86% (GEL 176 million) YoY and reached GEL 1,360 million. As such, the total market size for portfolios increased by 22.39% (GEL 1,606 million) YoY and stood at GEL 8,781 million.

In terms of loan contracts in 2021, the market size expanded by 2.05% (by 67.1 thousand) YoY over 2020, and equalled 3.3 million contracts. In commercial banks, they increased by 0.11% (2.8 thousand) YoY and amounted to 2.65 million contracts. However, loan contracts from microfinance organisations declined by 9.71% (64.3 thousand) YoY, equalling 726.7 thousand in total.

INTERNATIONAL RATINGS

S&P Global Ratings

S&P Global Ratings

In 2020, negative microeconomic trends and ongoing political crises were reflected in Georgia's upgraded long-term credit rating from Standard & Poor's (S&P); in which Georgia's assessment moved from positive to negative, while the sovereign credit rating remained untouched at the BB level. Considering the positive results from 2021 and encouraging prospects for 2022, S&P improved its assessment of Georgia's outlook from negative to stable, although the BB sovereign credit rating went unchanged.

Corporate Strategy

Our strategy is to become the best agriculture, micro and small business focused bank in Georgia, to create value for all our stakeholders and to develop our business sustainably. Moreover, the strategy is to expand on our experience and become a customer-centric, people-oriented and data-driven institution. As part of our growth and development strategy, in 2021-22 Crystal will apply and obtain a commercial banking license. Having reached institutional maturity, with the geographical footprint, number of customers and employees, Crystal is now effectively competing with banking institutions rather than much smaller MFIs. Our competitive capabilities versus banks are however limited by statutory requirements in the regulatory framework for microfinance institutions. As such, the commercial banking license would provide Crystal with better opportunities to fulfil its mission, giving the company the ability to effectively diversify funding sources, make funding costs more predictable, provide convenient products such as current and savings accounts and deposits to our customers, and furthermore to grow within the small business segment. Upon obtaining our commercial banking license, Crystal will continue to serve the same segment of customers, but from a much stronger financial and institutional platform, thereby creating more value for all our stakeholders.

OPERATIONAL TARGETS

The delivery of our corporate strategy is dependent upon the smooth and timely execution of our operational targets, which form the basis of our annual strategic milestones, as distributed across the business units and departments. These key targets are as follows:

- **Banking license acquisition.**
- **Core banking system implementation.**
- **Expansion of the loan portfolio.**
- **Increased revenue from the non-credit business.**
- **Digitalization and automation of business processes.**
- **Brand strengthening and improvement of customer experience.**
- **Improved talent management and organisational development systems.**
- **Strengthened risk governance.**
- **Enhanced E&S performance and measurement.**
- **Improved data governance and analytics.**

CRYSTAL'S VALUE CREATION MODEL

As a platform for the development of Georgia's micro, small entrepreneurs and farmers, Crystal aims to reduce poverty throughout the country by promoting entrepreneurship in a financially, socially and environmentally sustainable way. The following diagram encapsulates Crystal's value creation model, demonstrating how our products, inputs, service channels and customer segments each generate outcomes which fall under the 3Ps: people, planet and profit. We have developed a measurement methodology against these outcomes, as highlighted in this integrated report. These effects crucially also produce impacts that contribute towards six of the UN SDGs.

We support micro and small entrepreneurs and smallholder farmers throughout Georgia in realising their business potential, reaching financial stability and improving their living standards. As a socially active player, Crystal offers responsible, innovative and green financial solutions, in combination with expertise critical for the customers' economic success.

Products/ Inputs	
Microloans	Instalments
SME Loans	EE&RE
Leasing	Factoring*
Payments	Consulting
Currency	Technology
Insurance	E-commerce

Chanels
Branches
Direct
Mobile
Online
Call centre
Agent Network
Merchants

Segments
Small Holder Farmers
Micro Entrepreneurs
SMEs
Retail Customers
Special Groups: Youth, Women, Diaspora*
Vehicle buyers, Mortage & GG loan users

Impact/SDGs		
1 NO POVERTY	4 QUALITY EDUCATION	5 GENDER EQUALITY
7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	10 REDUCED INEQUALITIES

Outcomes	Indicators
People	Business & Household Results
Planet	Carbon Footprint & Bio Diversity
Profit	Return on Equity

** future products and segments*

OUTCOMES IN 2021

People	Planet	Profit
160,000 customer serviced.	Green portfolio **GEL 11.7 million.**	ROE in 2021 was **5.4 %**. As well as returning to profitability, company has strengthened its institutional capacity, which will materialize as enhanced profitability in subsequent years.
Average outstanding loan amount **GEL 2.2 thousand**		
Female customers **60.1%.**	EE&RE product have been made available to **7,500 customers.**	The financial report and audited financial statement for 2021 can be found below.
Borrowers outside urban areas **53.6%**	**377 tons of CO2** have been conserved.	

Business Model






Crystal is a leading Georgian financial inclusion organisation which provides various financial and non-financial services and acts as a development platform for customers. Our key strength is business model, which focuses on providing the best customer experience in micro finance. Crystal provides services to its customers both through branches and digital channels. As of the end of 2020, Crystal can be found throughout Georgia in our 50 branches. While at the same time, our e-commerce, point-of-sale instalment and online lending platforms continue to attract new customers via online channels. Our lending business offers a wide range of products to retail and business clients, creating an exceptional customer experience, with comfortable and innovative microfinance solutions alongside highly personalised consulting and development services within our business support programmes.

Our non-credit business offers a wide range of transactional products such as payments, money transfers, currency conversion, insurance and related transactional services. Crystal's funding sources are diversified, where financing is mainly derived from foreign financial institutions, although local commercial banks also represent a significant source of funding. Crystal has also developed alternative funding, such as issuing and placing corporate bonds. We always pay special attention to the design of our products, internal systems, policies and procedures, employee skills, as well as our corporate culture, to ensure responsible lending practices. The company has a consistently positive reputation among its customers, financiers, regulator and other stakeholders.

SIGNIFICANT BUSINESS UPDATES

In 2021, controlling the pandemic was still essential, although, unlike the previous year, most Georgian businesses switched to the new reality and adapted to the situation. Crystal equally responded to market needs and the various challenges with optimal readiness and our usual flexibility. Resultingly, the company served 160,000 customers throughout the year – 14.4% more compared to the previous year. Additionally, Crystal's credit portfolio rose by 11.6% and exceeded GEL 368 million in 2021.

In 2021, the company implemented an important structural change. In particular, we united all business functions, including the digital business, under a single umbrella, which will ensure more efficient management and technological developments in the future.

Last year, the company successfully implemented new core system, preceded by an inventory of our business processes and procedures, as well as updating and tailoring them to the new system. As part of the system change, exhaustive modification and optimisation of the company's major credit products and processes took place. These alterations will significantly improve both the promptness and quality of our customer service.

At the end of 2021, 30 Crystal branches switched to a six-day working week. As a result, our services became accessible to more customers, which represents an important step in terms of increased competitiveness and customer loyalty in the financial sector.

Crystal also continued the development of its network. In 2021, we launched three service centres different concept, which allows our customers to receive non-credit products. In addition, two instalment centres were established, ensuring receipt and application processing from all channels, while providing fast service to our customers. In total, over 225,000 applications were received and processed in 2021, which is 31.5% more than the previous year.

Meanwhile, the company placed additional focus on the digitalisation of customer service, thus ensuring an increase of GEL 3 million to the online loan portfolio. An express loan disbursal project, serving customers for up to 5,000 GEL at their business location, was also piloted.

The company integrated with the central Revenue Service database, and improved the quality and speed of its services by offering accessible and accurate information about income.

Last year remittances were used by >50,000 customers, with a total >180,000 transactions. The fees from remittances increased by 38% in 2021 compared to 2020 and amounted to >540,000 GEL. The company additionally joined Western Union's international money transfer system; the annual turnover of which was 23,600,000 GEL.

Crystal implemented significant changes to life insurance product as well. The insured credit portfolio increased by 32%, reaching 182,000,000 GEL. During the 2021 agricultural season, >700 insurance policies were issued in total, out of which, the total insurance attracted reached >450,000 GEL. As part of agricultural insurance, losses of 360,000 GEL were covered for customers affected by the natural disaster in Kakheti and Shida Kartli.

Crystal closely cooperated with DFC/Sida within the signed loan guarantee scheme. In light of the financial crisis, the guarantee scheme provides the company some confidence in terms funding its customers. This in turn broadly increased the availability of financial resources for our customers. As part of the loan guarantee program, a portfolio of 10,000,000 GEL was generated in 2021.

Last year, Crystal continued developing green and energy-efficient loans, those aimed at contributing to the global goal of energy efficiency; this particular portfolio amounted to >12,000,000 GEL. To help promote solar energy, meetings with customers were organised together with strategic partners that sought to raise customer awareness, provide information about the environmental and economic benefits of solar energy systems, and offer loans.

Relationship with Investors and Funding

Crystal received funding of over USD 50 million from international and local partners in 2021; including significant contribution from foreign partners, with a share of 68%, and the remaining 32% attracted from local banks. Thirty percent of these resources were directed towards increasing the portfolio, while the remainder was used on funding existing clients.

In 2021, we cooperated with the following international financial institutions: Dutch Entrepreneurial Development Bank (FMO), BlueOrchard, Symbiotics, responsAbility, Bank Im Bistum, TripleJump, and EFA. Crystal increased cooperation with its local partners and, in total, cooperated with five large banks. Furthermore, Crystal had access to GEL 68.3 million credit resources and USD 50 million hedging products over the year, provided with the support of the National Bank of Georgia. At the end of 2021, the usage ratio of the NBG credit line was 48%. The company ultimately had full access to financial resources and was insured from liquidity risks.

Across the many transactions from the year, BlueOrchard's support in strengthening Crystal is of particular note. The organisation provided Crystal with a subordinated loan of USD 3 million, with which the company measurably improved its positions in capital adequacy. Such financial resources play a crucial role towards our stable and sustainable development. Further work was also implemented in the funding of Crystal Leasing in 2021, for which the mobilisation of GEL 8 million loan took place.

TRANSACTIONS PARTNERS IN 2021

Technical Assistance

The year was particularly productive, with ample technical assistance programs (of over 700,000 GEL), attracted for development purposes and up to 30% Crystal participation. Crystal actively cooperated with the following companies: The European Fund for Southeast Europe (EFSE), the Green for Growth Fund (GGF), Proparco, and the European Investment Bank (EIB).

Additionally negotiations were actively carried out with the Dutch Entrepreneurial Development Bank (FMO); which created, from the 2021 funding, a supporting grants TA for Crystal, involving a two-year cooperation for our systemic development. As a large-scale program, its implementation will begin in the second quarter of 2022.

Leasing Business

LEASING BUSINESS

The second year of Crystal's leasing operations was executed in 2021. The period was marked by post-pandemic challenges. Yet, despite these complexities, there were advancements in leasing experiences on various fronts: efficiency management, broadening sectoral leasing portfolios, improving relationships with suppliers, collaborating with Rural Development Agency projects, and cooperating with business associations and consulting companies. Furthermore, our experience and knowledge of specifications related to the secondary market of assets improved.

We received consulting support for agro-leasing development from FinExCoop Georgia – an organisation founded by the Frankfurt School of Finance & Management, AFD and Mercy Corps Georgia – which promotes development of farm clusters and cooperatives throughout the country.

In its second year of operation, the company managed to boost its leasing portfolio by up to 150% (from GEL 2.3 million to GEL 5.8 million), while, by the end of the year, we reached a total portfolio of GEL 7.1 million, including off-balance-sheet contracts. Throughout the year, we funded leasing operations amounting to GEL 7.8 Million and served over 170 business clients.

As a new player on the market, we gained a modest 1.8% of the leasing market amongst four Georgian leasing companies – with the total income over the year reaching GEL 1.22 Million. Our Cost-to-Income Ratio reduced from 23% to 15%. Whilst Non-Performing Loans (NPL) (par>90 +Rest) equalled 6.5%, of which the cost of risk was 2.97%, therefore, our annual leasing operating result was 83,000 GEL loss, versus anticipated 230,000 GEL loss.

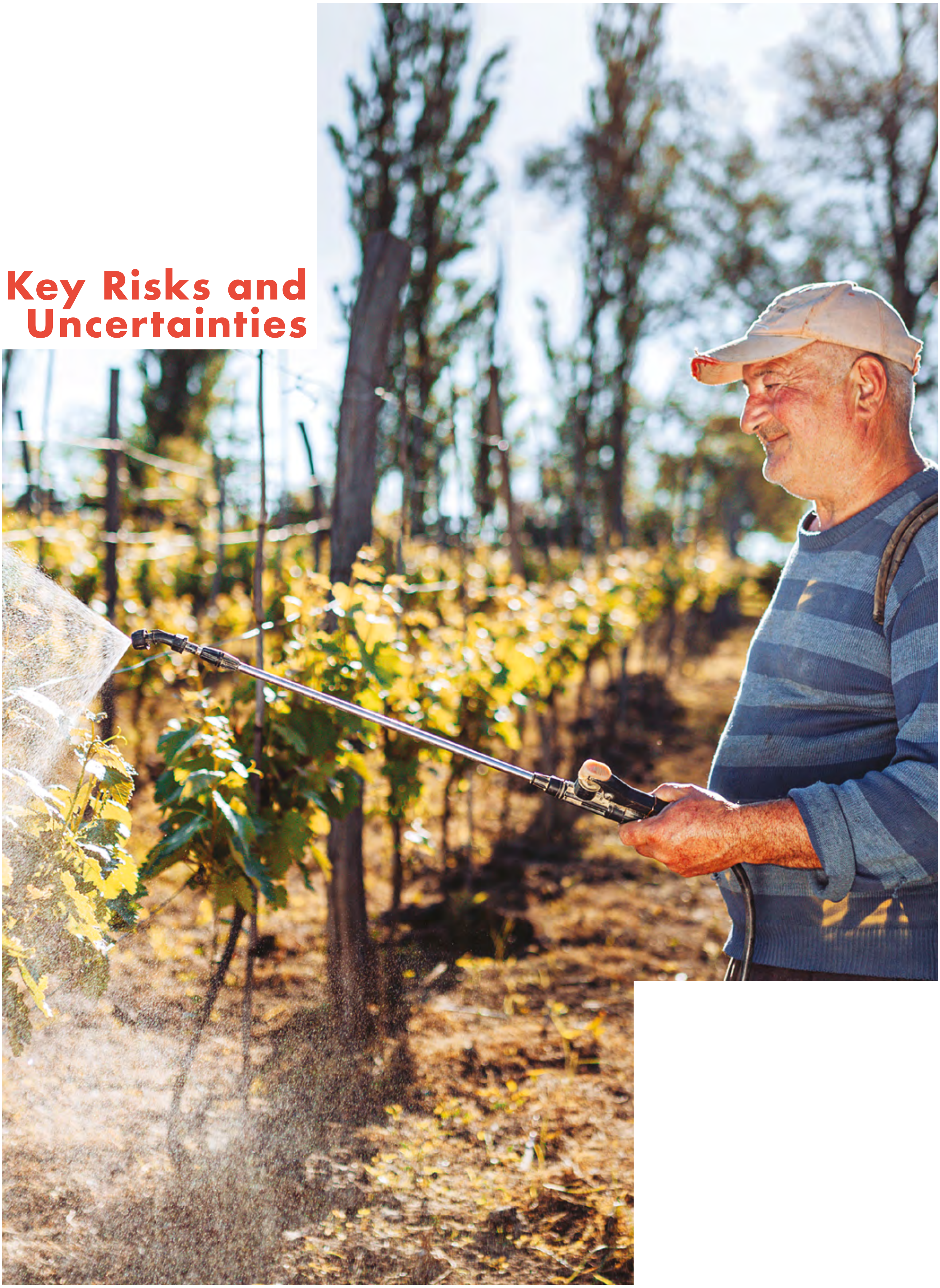
IMPORTANT PLANS FOR 2022

- Increasing the leasing portfolio, as an independent company, to GEL 17 million;
- Sectoral diversification in the fields of construction, medicine, aesthetics, agriculture, processing, mining, production, transport and logistics;
- Improving the green and energy-efficient funding experience;
- Developing the efficiency of sales channels;
- Doubling the market share from 1.8% to 3.5%;
- Expanding staff qualifications.

PLANNED PARAMETERS FOR 2022

	Actual, 2021	Planned, 2021	Planned, 2022
Number of Clients	171	240	360
Portfolio	7.1 mln.	12 mln.	18.4 mln.
Number of contracts (assets)	259	360	508
Past due > 90 days	3.69%	5.5%	4%
Restructuring	2.7	4%	4%
NPL (PAR 90 +Restructuring)	6.5%	5.5%	8%
Cost of Risk	2.9%	2.2%	2.9%
Yield	24.28%	22.87%	24.11%
Number of Employees	12	17	23
Number of Branches	1	1	1

Key Risks and Uncertainties



CORE RISK MANAGEMENT PRINCIPLES

Developing a sound and effective Risk Management System, based on international standards and best practices, is one of Crystal's most significant goals, which, in its part will ensure the following:

- Inform the company of any existing risks or threats in a timely manner;
- Allow for the prevention of possible losses and the effective management of incidents;
- Create credible grounds for decision-making and planning;
- Increase the probability of achieving goals;
- Enhance organisational control, operational efficiency and resilience;
- Comply with regulatory requirements and international standards;
- Align to the company's business strategy and promote the achievement of its strategic goals.

The Risk Management System is based on a three-level defence principle, in which all three levels operate independently of one another.

FIRST LEVEL
Business entity, operational management, responsible for managing and controlling risks in day-to-day operations;

SECOND LEVEL
the Risk Management Units, responsible for developing and updating the Risk Management System and implementing its instruments;

THIRD LEVEL
the Independent Internal Audit, which provides assurance for the effectiveness of the Risk Management Framework.

MAJOR PROCESSES WITHIN THE RISK MANAGEMENT FRAMEWORK

The Risk Management Framework ensures:

- Risk identification;
- Risk assessment (quantitative and qualitative);
- Development of recommendations for effective risk management;
- Compliance evaluation of the final risk level with risk appetite;
- Monitoring and new risk identification for further management;
- Appropriate risk reporting;
- Evaluation and updating the risk process effectiveness.

RISK MANAGEMENT IN 2021

The Risk Management Framework ensures:

Monitoring and updating the Risk Management System is one of our critical principles. It is necessary for the system to be developed in line with the development of the company, and to be in compliance with the best practices and the requirements of the National Bank of Georgia.

Management Improvement
The shareholders and the Crystal Supervisory Board ensure the development and appraisal of the company Risk Management System, in accordance with banking standards; in this case demonstrated by the changes in company management – a function of the Chief Risk Officer (CRO) will be introduced. This also helps ensure the administration of risks using a single consolidated standard with the particular involvement of the management in decision-making processes related to risks.

System Improvement
The Risk Management Framework was reviewed and updated to fully reflect the company vision towards the Risk Management System, and its compliance with the best banking practices.

Based on the Risk Management System Standard, the company implemented changes in its Financial Risk Management Process. The Financial Risk Management was removed from within the Financial Directorate and developed within the Risk Directorate.

Software Improvement
Maintaining an affordable and appropriate data system is a notable element in our risk management process. As such, the company planned and executed a change in its core banking system, and Alta was implemented in its place.

In addition, important alterations were made in the automation of expected credit loss (ECL) calculation, and a significant project was implemented after consultation with the audit company KPMG. This project ensured the substantial automation of ECL calculation processes, thus reducing human involvement to a minimum while ensuring controlled and reliable progress.

Process and Instrument Improvement
Significant enhancements were completed within our Anti Money Laundering (AML) processes: the procedure and policies were fully updated; Know Your Client and Risk Assignment Process were upgraded; and the suspicious transactions monitoring process was also amended, amongst other additions.

The lending policy also was updated in close cooperation with the National Bank of Georgia. The purpose of this revision is to ensure the policy is fully compatible with the regulations of the National Bank of Georgia in order to avoid over-indebtedness. Crystal fully understands and freely shares the mandate provided by the National Bank of Georgia.

Taking into consideration the effect of the pandemic proved another important factor when updating the lending policy. The impact of the pandemic on various segments was fully identified, and subsequently reflected appropriately on the lending standards for each given segment.

Despite a number of challenges (the pandemic, inflation, instability of currency exchange rates and so on), Crystal showed a high level of stability, which was largely dependent on our appropriate lending process (precise analyses and responsible lending principles) and our expansive portfolio diversification. This process itself is provided under the company risk appetite document and the lending policy.

Regarding operating risks, the RED (risk cases database) methodology and software were updated in full compliance with National Bank requirements.

The customer rights management process was moreover fully updated.

In the financial risks section, our liquidity and exchange risk management policies were entirely amended, and the instruments are now in full compliance with banking standards.

PLANNED IMPROVEMENTS IN RISK MANAGEMENT FOR 2022

The following highlights improvements to various processes and instruments:

- In close cooperation with the National Bank of Georgia, further developments will ensure the AML process is in full compliance with the tightened legislation;
- Risk self-assessment process implementation will help the company fully evaluate all business process risks;
- Implementation of the key risk indicators process will assist the company in identifying and evaluating risks at an early stage, thereby simplifying the risk reduction process;
- The new risk approval process will enable the company to evaluate expected risks resulting from the introduction of a new process or new product, and consider them within the process;
- Improvements to the compliance process will help the company be in full compliance with international best practices;
- Enhancement of the counterparty risk management process will allow the company to assess the financial position of a counterparty in a timely manner and avoid the risk of a default;
- Improvement of the price risk and capital adequacy management process for compliance with the requirements of the National Bank of Georgia and best banking practices;

The most important element of risk management is accessible and reliable data. Therefore, Crystal intends to further develop the internal reporting system, so that decision-makers have prompt and reliable data. An important instrument in this direction will be BI and other reporting instruments.

Corporate Social Responsibility

The main goal of the company's activity is tackling poverty in Georgia by promoting entrepreneurship and offering accessibility to financial resources.

Crystal is engaged in various E&S projects, business consulting and green financing – this expands all the way to incorporating E&S considerations into our business model, corporate strategy, operational policy and financing practices.

SPECIAL ACHIEVEMENTS IN 2021

Buzz Georgia – implemented as part of the United States Agency for International Development (USAID) and the White House-led Women's Global Development and Prosperity (W-GDP) initiative, and the first and only representation of a Dutch international empowerment network – Buzz Women Global in Georgia, plans to cover 1,500 women throughout Georgia within the next two years.

Buzz Georgia's unique platform aims to bolster the personal development of female entrepreneurs, alongside the expansion of their financial and entrepreneurial skills. The training module includes financial and entrepreneurial aspects as well as personal skills development, in particular:

1) personal growth – raising esteem and self-confidence, found to be a problem for many women in the regions and beyond;

2) issues of financial awareness and savings – aspects that are not accessible to wider society, especially for rural women; and

3) accessibility to financial resources and networking.

ACHIEVEMENTS OF BUZZ GEORGIA IN 2021

- 16 Buzz-trainers;
- 775 Buzz-women in Georgia, since June 2020 to date;
- 196 Buzz-ambassadors – those exceptionally active participants;
- 6 external networking-training meetings for Buzz-ambassadors;
- 2 information campaigns throughout the regions of Georgia.

IMPLEMENTATION OF THE ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM (ESMS)

The GGF-Finance in Motion project, carried out within the technical assistance framework, seeks to implement a system in compliance with the new ESG (Environmental, Social and Governance) requirements from the National Bank of Georgia.

As part of the ESMS implementation, for the first time in Crystal, in 2022 E&S Key Performance Indicators (KPIs) were identified for directors. These E&S KPIs offer a more exact measurement of our environmental and social impact during the course of daily operations.

CRYSTAL'S 2020 SOCIAL IMPACT SURVEY

The purpose of the survey is to measure the company's financial activities on its customers – consequently discerning in which direction to improve existing services and how to cooperate with customers in compliance with social, gender and environmental principles.

The social impact survey for 2021 was prepared using responses from 443 clients; from which we learned about the positive impact of Crystal's financial and non-financial services on our customers.

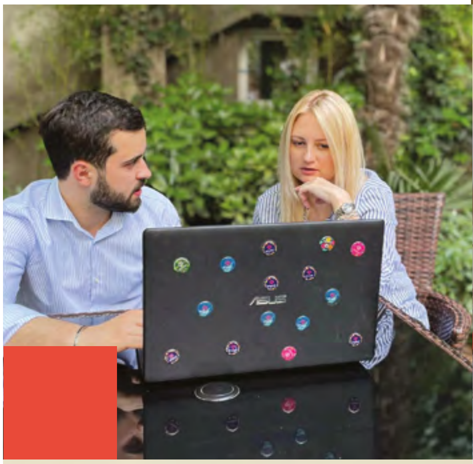
Based on 2020 Social Impact Survey results, we can say that the Crystal is continuously committed to stay close to its clients. Despite the pandemic situation, Crystal has maintained its mission to enhance financial inclusion of people in Georgia and managed to listen to more than 460 clients, sharing their experience and the impact of Crystal on their lives and businesses, with a review of existing data as well as qualitative and quantitative surveys.

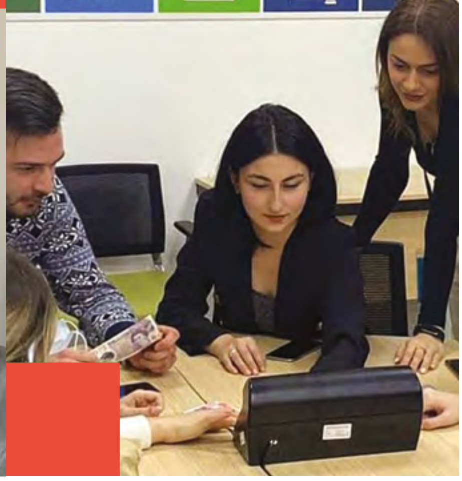
The main insights of the 2020 SIM show that, with a strong focus on women, young and rural population, Crystal offers a diversity of loan products. Half of Crystal's portfolio has been dedicated to productive loans, and a significant part also enabled our customers to meet their basic family needs. Crystal's customer satisfaction's level remained once again remarkably high, which allows Crystal to maintain its competitive advantage on human resources and customer service.

CRYSTAL WON THE BUSINESS FOR GENDER EQUALITY 2020 COMPETITION

As a Financial Inclusion Organisation, Crystal took first place in the Millennium Challenge Foundation's Business for Gender Equality 2020 competition. Within the competition, Crystal introduced its ongoing projects in the field of female empowerment and support. The company moreover submitted its mentoring program, implemented in collaboration with UN Women, to the competition. It is noteworthy that the company has also integrated numerous Sustainable Development Goals into its strategic plan – including SDG #5 on Gender Equality.

People in our Organisation





Crystal's social responsibility towards its staff is demonstrated by its healthy, safe and trust-based relationships and business-like approaches. The company constantly attempts to create an environment where employees have the possibility to express themselves, be involved, and have continuous opportunities for professional and personal growth, all under competitive and decent working conditions.

The last year was vital for the Talent Development and Management Department. In spite of pandemic-related crises, the department took noteworthy steps towards improvements in the HR Department, as well as those based around employee care. In particular:

- In 2021, as a record year in terms of recruiting for the department, the recruiting process was effectively managed. The Crystal team expanded with a further 228 new members;
- The gender balance was strengthened and the Gender Pay Gap reduced. In 2021, in positions where both genders are presented, the pay gap amounted to only 2%. This explicitly emphasises our prominent culture of gender equality.

Please see our foremost statistics:

Years with Crystal	
0-1 year	**18.1%**
1-5 years	**48.2%**
5-10 years	**27.7%**
Over 10 years	**6%**

Staff Age	
<20	**0.2%**
20-30	**38.5%**
30-40	**51.5%**
40-50	**8.8%**
50-60	**0.8%**
>60	**0.2%**

	Male	Female
All staff members	**35%**	**65%**
Top management	**83%**	**17%**
Senior management	**47%**	**53%**
Mid-level management	**44%**	**56%**

HR DIGITALISATION

In recent years, a number of HR processes have moved onto the electronic system; thereby saving significant time and simplifying the administration of employee-related activities. The HR digitalisation Project also continued in 2021:

- A new electronic system for evaluating employee probation periods was launched. It simplifies the administering of probation periods and makes the process more systematic and manageable at the central level;
- The electronic Goal Setting and Performance Appraisal (GSPA) system became fully operational. Under this system, with the approval of immediate supervisors, all management-level employees set quarterly objectives and goals, which are registered within the system with appropriate descriptions and appraisal indicators. Immediate supervisors can now periodically control the progress of goals and their current statuses, while an appraisal of these goals takes place after the reporting period. The management of this system takes place electronically.

VACCINATION CAMPAIGN

The pandemic was a significant challenge for the company in 2021. To ensure staff health and reduce any adverse impacts, with the coordinated effort of HSE, the Strategic Communications and the Talent Development and Management Departments, the company successfully implemented an information campaign to support vaccination. As a result of this effective campaign, over 80% of company employees were vaccinated twice, which remains one of the highest indicators among Georgian organisations.

RESEARCH

In terms of research, 2021 was an effective year for the HR Department. Organised by the Talent Development and Management Department, external companies carried out two important surveys:

- **Payroll market survey and analysis** – this allowed the company to obtain further information and determine the compliance of salaries for specific positions against the reality and market demands;
- **Employee satisfaction survey** – this provided objective, unbiased information on employee views and their attitudes towards the company.

ALTA TRAINING

On Crystal's transformation into a bank, the core system change – with training and staff retraining – remained one of our most significant projects. This intensive instruction was completed over two months, and 780 employees were fully trained.

INTERNSHIP

From the second part of 2021, an updated internship program was launched. Within the program, over 80 interns participated in training to become credit officers. In this regard, Crystal, as a development platform, regularly provides opportunities for professional growth, development, and thereafter decent employment for young people interested in the financial sector.

Information Technologies

The company has long established its bank transformation as a core strategic goal and, in 2021, it took the first significant step on this journey with a change in the key operational system (i.e. core system) and implementation of the software required for the transformation.

CHANGE OF THE LENDING AND OPERATING SYSTEM

Within the framework of the project, a study and analysis of the products on the market were carried out; various provider solutions were sought; while timing, budget, and details, amongst other differences, were each investigated. The strategic decision towards bank transformation and the core system change was thus finalised and the work initiated.

The Alta Software operating and lending system was selected – as the unconditional leader within the Georgian banking sector. After 10 months, in February 2021, the migration project was successfully completed. By October 2021, Crystal had already comprehensively migrated onto and continued working under the new operating and lending system. Alongside the introduction of the system, the adaptation of various other related systems, business processes and existing products were each achieved. The company successfully migrated the information of around 1,000,000 clients and 160,000 loans. Additionally, the cleaning, transformation and creation of medium data storage was carried out. Consequently, the new system was implemented in full compliance with the legislative requirements.

All external and internal applications were transferred onto the new system, including the original systems – for which certain modules needed to be copied and updated, adapted into the modern software architecture and tailored to the standards. Up to 90 differences between the old and new systems were identified, hence changes were developed and performed. Using Alta, the various complex functions for instalment and pawnshop were created essentially from the ground up and were adapted to the company's needs.

Considering the pandemic and time-related factors, in order to successfully complete the project, it was necessary to adopt a creative attitude, to adapt to modern project management standards and to tailor specifics to the project. As part of the venture, 20 thematic teams were established across various directions.

The project was executed while always taking into account the complex epidemiological situation in the country. In terms of information technology, the company effectively responded to the main challenges of the pandemic, while also successfully accomplishing our objectives and development plans and maintaining business continuity.

Our three-year digital transformation strategy was updated with future plans, challenges, and company visions, together with all the projects and processes required for digital transformation. The business strategy was further analysed, and the information technology strategy was adapted and tailored accordingly. The company moreover continued to develop and revise its processes and procedures based on international standards; the relevant standards were enhanced and implemented across all areas.

Our major services, software applications and core systems were all regularly updated and brought in line with the applicable regulations. New internal system development strategies and architecture were also developed and employed.

IT OPERATIONS

Crystal wholly updated its main server infrastructure, and the migration of the existing systems onto the new infrastructure took place without error or shutting down the system during working hours, thus ensuring the stable and sustainable development of the company.

Additionally, virtualisation and optimisation of the server infrastructure as well as monitoring and safety system improvements were carried out, thereby maintaining safe infrastructure and the protection of IT operations.

PROJECT MANAGEMENT AND BUSINESS ANALYSIS

Concurrent with migration onto Alta's operating and lending system, the project management team managed to successfully finalise up to 25 strategic and non-strategic projects throughout the year. These include such fruitful endeavours as the loan platform and decision-making optimisation projects; the leasing system update; the new SMS module; and the improvement and development of the EPR and human resources management systems. Furthermore, the loan processing and scoring system and the Problem Loan Management module were each upgraded and adapted to the latest National Bank regulations, and so on.

ACHIEVEMENTS IN INFORMATION SYSTEM SECURITY

All company systems, solutions and software were employed in compliance with IT security standards and security norms.

Despite the extent of hazards, the systems security teams managed to implement projects and controls at a consistently high level. Fundamental changes in the direction of increased customer and system security were also realised. Based on the critical services continuity plan, several business continuity tests were performed.

SOFTWARE DEVELOPMENT

This unit completed substantial projects for the enhancement and development of its programs. Within the framework of the Alta migration, all existing integrations were moved onto a new system. It was therefore necessary to copy and update old modules and adapt them to the new technology. These systems were modified to modern standards of development, security and architecture.

New loan processing products were included to automate and accelerate the issuing of loans. Critical services and software applications were also routinely upgraded and, when appropriate, brought in line with regulations.

SOFTWARE QUALITY ASSURANCE

The team carried out a number of iterations for the complete testing of the new operating and lending system. Each new version and update was tested in detail. As a result, the migration onto the new system was accomplished with minimal errors.

Additionally, significant steps were taken towards automated testing, and the company introduced several packages of automated testing. Critically, automation in testing processes allows for significant timesaving and the performance of large-scale operations in automated modes. This will improve quality, while also reducing the number of possible errors and the time required for testing projects.

GOVERNANCE STATEMENT

It is our responsibility to present this annual report and to provide shareholders with audited financial statements. We consider the annual report and accounts, taken as a whole, to be fair, balanced and understandable, and to provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy. As the Supervisory Board ('SB' or 'board') of JSC MFO Crystal ('Crystal'), we present this Integrated Report, including annual strategic report and the accompanying annual financial statement, provided by external auditors, as a fair, balanced and comprehensible account, which provides the information necessary for shareholders to assess the company's position, performance, business model and strategy. The report highlights the key operational and financial results, introduces the main achievements and challenges confronted by the company in 2021, as well as outlines its plans for the next reporting period. This report has been drafted in line with the Law of Georgia on Accounting, Auditing and Reporting, and with the specific disclosure requirements of the UK Corporate Governance Code.

Archil Bakuradze
Chair of Supervisory Board

SUPERVISORY BOARD

Crystal is headed by the effective supervisory board, which is collectively responsible for the long-term success of the company. The Supervisory Board is comprised of six members, including two independent directors, two investor representatives and two members, who are Georgian nationals based in Georgia. The directors bring extensive experience of business development, corporate governance, banking and microfinance, technology, innovation and senior human resource development.

CHAIR

The roles of the Board and of the Chair are clearly distinguished from the responsibilities of the management team. The Chair is responsible for the leadership of the Board ensuring its effectiveness in all its aspects. There have been no significant changes made to the commitments of Archil Bakuradze, the Chair of the Supervisory Board (Georgia), who is a financier, entrepreneur and the co-founder of Crystal.[1] He serves as Chair of the Board of Crystal Fund and participates in the governance of several nonprofit institutions. The Chair spends more than half of his time working with Crystal and his role and responsibilities are regulated through the respective policies and are approved by SB. The Chair is appointed by and accountable to the shareholders. The performance of the Chair is assessed by the company shareholders, based on his performance assessment carried out by SB. Upon the recommendation of the board, shareholders approve the Chair's remuneration and any changes thereof.

BOARD COMPOSITION

Crystal uses its Supervisory Board policy and procedure to clearly define its mandate, role and responsibilities and to regulate its activities. It sets forth procedures, communication rules, and provides guidance on the management of conflict of interests, as well as rules for the appointment and resignation of members. The Deputy Chair of the SB, Nikoloz Loladze (Georgia), is an experienced corporate director, an independent member of the SB, who alternates as Chair during absences and chairs the Risk Committee. Mr. Loladze is a shareholder of JSC Mobile Finance Service Georgia, which provides Crystal with electronic payment services. Hence, on any decisions relating to these matters Mr. Loladze abstains from voting. The SB members include (in alphabetical order): Jan Dewijngaert (Belgium), appointed by Incofin IM, who chairs the Strategy and Innovation Committee; Aleem Remtula (USA), appointed by DWM, who chairs the Environmental and Social Committee; and Keith Young (UK), appointed by Crystal Fund, who chairs the HR and Remuneration Committee; Lilit Gharayan (Armenia), independent member, who chairs the Internal Audit Committee.

ACTIVITIES OF THE SUPERVISORY BOARD

In 2021, the SB met eight times remotely. The number of each SB committee meetings in 2021:

Internal Audit Committee	5
ALCO (Assets and Liabilities) Committee	7
Risk Committee	6
Strategy and Innovation Committee	3
E&S Committee	3
Human Resources and Remuneration Committee	2

1 Archil co-founded two other finance companies: a payment system provider in Georgia and a consumer finance company in the United Kingdom, for which he has been granted a controlled function CF2 Non-Executive Director from the UK Financial Conduct Authority (2017).

The SB receives a detailed quarterly report on the company's key performance indicators, including a statement on its financial position. In addition, the SB reviews a quarterly risk report. The SB committees examine detailed reports and discuss matters within their competences. The SB conducts regular reviews for the implementation of strategic annual milestones. The key focus of the SB is to ensure the effective supervision and governance of the company. Resolutions made by the SB deal with strategic issues, overall organisational structure, board-level policies, largescale projects, motivation and performance appraisal of chief officers, approvals of the annual milestones, financial forecasts and recommending relevant actions to shareholders, such as the distribution of dividends, issuance of new shares for the management incentive plan or the composition of the board.

SUPPORT OF THE BOARD

The work of the SB is supported by a Corporate Secretary and the Chair is supported by an Executive Assistant.

CORPORATE GOVERNANCE

Crystal's corporate governance contributes to the fulfilment of the company's mission and long-term strategy. The role of the Supervisory Board is to assess, on an annual basis, the achievement of corporate strategy and to reflect the targets of the following year's strategic milestones. Every Chief Officer is assigned a set of primary and secondary strategic milestones, which forms an important basis for their variable compensation. These milestones are subsequently delegated to business or structural units and translated into action plans to be measured by key performance indicators. The aim of effective corporate governance is to ensure the Crystal board maintains its customer centric and people-oriented approach. Thusly, the board commissions customer satisfaction and staff engagement surveys. Finally, the social committee reviews on an annual basis its social impact assessment. Crystal has a stringent policy for managing conflict of interests. It is regulated by SB rules and procedures and the ethics code for all members of staff. Crystal, to the greatest possible extent, models its system of corporate governance on the principles of the UK Corporate Governance Code, the details of which are provided in Annex 1.

SUPERVISORY BOARD MEMBERS

Archil Bakuradze
Chair – holds the position of Chair of the JSC MFO Crystal Supervisory Board and leads the company's Assets and Liabilities Committee. Archil served as Chair of the Georgian Microfinance Association and is currently a member of its board. He is a Chair of the Board of Crystal Fund and serves on the Boards of several non-profit organisations. Through the Chevening Scholarship, from the UK Foreign and Commonwealth Office, Archil received an MBA from Lancaster University's Management School (2004). He is a fellow of the John Smith Trust (2000) and recipient of the international van Heuven Goedhart award from the Dutch Refugee Foundation, Stichting Vluchteling (2003).

Nikoloz Loladze
Deputy Chair – the Deputy Chair heads the Risk Committee, holding over a decade of experience in economic development issues. Nikoloz is a founder and board member of several prominent businesses and non-profit organisations in Georgia. In his capacity as a governance expert, Nikoloz still acts as an advisor and board member for a variety of business and non-profit organisations, including the Georgian Stock Exchange, JSC Brokerage Company Caucasus Capital Group, JSC Mobile Finance Eurasia (UK-Georgia), the Professional Network and Anchor Consulting LLC. Mr Loladze holds postgraduate qualifications in Management (Warwick, UK) and Physics (Tbilisi, Georgia), as well as certificates in project management, policy analysis and public administration.

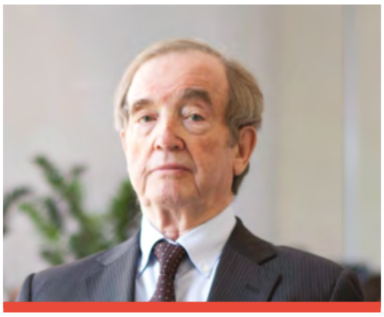
Jan Dewijngaert
Member – is the Chair of the Strategy and Innovations Committee. He serves as the Director of private equity for the EECA region at Incofin. He was previously a partner at Gimv (2012- 2015), managing director at Eagle Venture Partner (2001-2015), and an analyst, investment manager, senior investment manager, executive senior investment manager and director at Gimv (1989- 2011). He also worked for KBC Bank as an advisor (1983-1989). Mr Dewijngaert graduated as a civil engineer in construction and industrial policy from the Catholic University of Leuven (Belgium). He studied further corporate financial strategy in France.

Lilit Gharayan
Independent Member – is a financier and has been a member of Crystal's Supervisory Board since July 2018. She has extensive experience in leadership as well as holding a consultant position in financial management, risk management and operational management. Since 2015, Mrs Gharayan has been participating in the implementation of SDC, KfW and AFD projects in Georgia and Armenia. She holds an MBA degree with a major in finance from the American University of Armenia and an MA from Yerevan State University. Mrs Gharayan is a graduate of the ProCredit Management Academy and is a member of ACCA.

SUPERVISORY BOARD MEMBERS

Aleem Remtula

Member – is a partner and Head of Private Equity for Developing World Markets (DWM), and Mr Remtula has been a Board member and shareholder representative for DWM at Crystal since 2011. He currently heads Crystal's E&S Committee. Mr Remtula started his career in corporate finance at JP Morgan and has nearly 20 years of experience in venture capital and private equity impact investing globally. He holds an MBA from Harvard Business School and a Bachelor's degree in Economics and Finance from Princeton University.



Keith Young MBE

Member – is the Chair of the HR, Compensation and Remuneration Committee. He is an entrepreneur with considerable expertise in the industries of publishing, communications and new technologies. Keith has been the Executive Chair of cScape Group plc and on the Board of Group NBT plc, which he co-founded. He holds an Economics degree from the London School of Economics, and also has a broad background of investment and management in companies from a number of other sectors. Keith has been a longstanding investor in JSC Mobile Finance Eurasia, one of the Georgia's pioneers in electronic payments.

Michaël Blockx

Alternative Member – Michaël has supported Incofin IM's Global Private Equity Operations since 2018, based out of their Antwerp office. He is a member of the Incofin IM AIFM equity investment committee. Michaël has over 16 years' experience in private equity, strategy consulting and in the consumer goods industry. He worked with Procter & Gamble as a financial analyst for two years; was a consultant with The Boston Consulting Group (BCG) for four years; and an investment manager for close to four years at Delta Partners Capital. In his most recent role before joining Incofin, for three years he was a project manager with Roland Berger, a strategy consultant. Michaël holds Master of Science (Electronics Engineering) and Bachelor of Science (Economics) degrees from KU Leuven, Belgium. He has also obtained the Level 1 CFA.

Suma Swaminathan

Alternative Member – Vice President of Private Equity at Developing World Markets (DWM), Suma Swaminathan has been an alternative Board member since 2020 as DWM's shareholder representative at Crystal. Prior to joining DWM, Suma worked as a Senior Valuation Consultant at Empire Valuation Consultants, a boutique consulting firm in NYC. She has experience leading and managing the valuation of publicly and privately held companies' equity, debt, and complex assets or securities for the purposes of potential investments, financial reporting and corporate planning. She has also worked in technology at Capital One Auto Finance, through Infosys Technologies. Suma received her MBA from NYU's Stern School of Business, where she was designated a Faculty Scholar for Social Enterprise, based on her work with weaver cooperative societies within the handloom industry in India. She holds a Bachelor's degree in Electrical Engineering from Osmania University in Hyderabad, India.

MANAGEMENT TEAM (Board of Directors)

Ilia Revia

Chief Executive Officer – is the Chief Executive Officer of MFO Crystal. He is an accomplished manager with extensive experience leading complex change management projects in the IT and banking sectors. He began his career as a web developer, moving into IT Project Management for a US Law firm in 2007-2009 and DPK Consulting in 2009. Joining the Bank of Georgia in 2009, he rose to Deputy Chief Information Officer in 2014, leading several complex projects including the acquisition of PrivatBank Georgia and an Agile transformation initiative. Therafter, he was appointed MFO Crystal's CEO and has been in the role since June 2019. Ilia is a certified Project Management Professional (PMP) with graduate degrees in Project Management from George Washington University, and IT and Business Innovation from Jönköping University in Sweden, alongside an undergraduate Mathematics degree from the Georgian Technical University.

Davit Bendeliani

Chief Financial Officer – is the Chief Financial Officer (CFO) of Crystal. From August 2004 to 2011 he served as the Financial Manager for Crystal Fund. Prior to which, he managed the finance of CHCA, from April 1997 to July 2004. Mr Bendeliani holds a degree in Economics from Ivane Javakhishvili Tbilisi State University. He also holds certificates in the treasury management of microfinance organisations, strategic planning and change management, microfinance product development, risk management methodology, internal audit development, human resources management and strategic planning programs.

Melania Kutchukhidze

Chief Business Officer – is the Chief Business Officer of MFO Crystal. She is an established senior executive and management expert, with 14 years of leadership experience in the financial sector, having first served, from 2006-2010, as Head of Retail and Small Business Development at VTB Bank Georgia. From 2010-2015, she was Head of the Network Management Department at Constanta Bank, before taking over the Micro Business Management Team at TBC Bank in Tbilisi, until 2016. She joined Crystal in 2018 as Head of Network Management after her two-year role as Commercial Director for the Lisi Green Urban Project. She was appointed Crystal's Deputy Chief Business Officer in 2019, and Chief Business Officer in May 2020. Melania holds a Master's degree in Management from VTB Bank Corporate University and an undergraduate degree in Economics and Management from the Georgian Subtropical Business University.

Manuchar Chitaishvili

Chief Innovations Officer – is the Chief People Officer. In 2005, he was the Acting Head of the Kutaisi Self-governance Department. From 2001, he worked in various positions in both the private and public sectors, before joining Crystal in 2006. Mr Chitaishvili holds an MA in Public Administration from the Georgian Institute of Public Affairs and an MA in Law from Kutaisi Tsereteli University. He has additionally undertaken a course in Strasbourg within the Council of Europe.

MANAGEMENT TEAM (Board of Directors)

Beka Tsitskishvili

Chief Information Officer – has been serving as the Chief Information Officer since 2018. Prior to which, he was the CIO of the Adjara Group. Mr Tsitskishvili also worked in leadership positions for Aviator Ltd. and Bank Republic, and is a co-founder of Next Step Ltd. He holds a Master's degree in Business Administration from the Grenoble Graduate School of Business and the Caucasus School of Business, and a Master's degree in Computer Science from Ivane Javakhishvili Tbilisi State University, within the faculty of applied mathematics and computer sciences.

Giorgi Megeneishvili

Chief Risk Officer – Giorgi has been holding various positions since 2005 and went through an interesting path of development. He made a valuable contribution to the development of the Company by formatting and developing the classical risk management line. Giorgi is the certified Risk Manager, Certified International Microfinance Manager (Frankfurt School of Finance and Management) and holds BA in Economic from Akaki Tsereteli Kutaisi State University.

Kakha Gabeskiria

CEO, JSC Crystal Leasing – joined Crystal team in 2009, holding various executive positions such as Chief Credit Officer, Chief Operations Officer and Chief Business Officer. Starting from 2020 he was appointed on CEO position of Crystal Leasing a subsidiary of MFO Crystal. Mr. Gabeskiria has 20 years of experience in MSME sector holding manager positions at Procredit Bank. He holds a BA in Economics from the Georgian Institute of Sub-tropic Agriculture. In addition, he is certified in Project Management, Business Analyses, HR Management, Product Development, Credit Portfolio Planning and Management, Credit and Operating Risk Management.

Giorgi Janelidze

CEO, LLC Crystal Consulting – is the Chief Executive Officer of Crystal Consulting. During the last nine years, he has been working in MFO Crystal on different positions and currently is developing as an executive in business consulting. Since 2008 Giorgi has been working in non-governmental organizations and the private sector. He has a background in Microfinance, Marketing, IT, Project Management, and the MSE sector. Giorgi has scaled several startups from business idea to final product. By education, he is an IT specialist and certified Project Manager & Digital Marketologist. Giorgi holds a master's degree in IT&Economics and currently progressing with PhD.

COMMITTEE REPORTS

THE ASSETS AND LIABILITY COMMITTEE (ALCO)

Sessions conducted in 2021: 7
Key issues discussed and resolved:

- Financial results;
- Financial plan;
- Budget parameters;
- Portfolio quality;
- Credit Recourses and financing;
- Post-crises and Credit Policy;

The ALCO, which includes its Chair (the Chair of ALCO), representative investor members of the SB, the CEO, the CFO and the CBO, convenes on a monthly basis. The purpose of the ALCO is to supervise the assets and liability management process for Crystal, which includes balance and profits, liquidity planning, funding sources, foreign currency mismatches, interest rates, capital adequacy and liquidity risks. The Supervisory Board also examines reports related to macro-economic indicators, market share analysis and business plan implementation. A list of indicators from the annual budget is monitored by the ALCO and may be revised by the Supervisory Board, if required.

THE ENVIRONMENTAL AND SOCIAL COMMITTEE

Sessions conducted in 2021: 3
Key issues discussed and resolved:

- Current projects and activities;
- Environmental impact assessment;
- Environmental and social management and recommendations;

The objective of the Committee is to define the company's environmental and social mission objectives and to supervise their implementation. The mandate of the Committee is to outline the principles and activities of the company's corporate environmental and social responsibility, consumer protection and responsible lending practices, as well as to monitor the respective implementation. The Committee therefore helps the management and Supervisory Board focus on environmental and social responsibility.

THE HR, COMPENSATION AND REMUNERATION COMMITTEE

Sessions conducted in 2021: 2
Key issues discussed and resolved:

- Performance evaluation;
- Staff attrition;
- Organizational development;
- CO evaluation results;
- Structural changes;

The Committee is in charge of overseeing the HR strategy, performance assessment and remuneration of Chief Officers, as well as the nomination of Board members. The nomination of candidates is founded on the competency-based needs of the Board, as identified within the course of their evaluation. The Chair solicits nominations from fellow members of the Board or through an open competition. Prior to which, the Board defines the selection criteria and subsequently assesses the candidates appropriately. The Committee, based on a relevant research and interview process, proposes a candidate for the Supervisory Board to nominate to the shareholders. Following SB nomination, a shareholder meeting is authorised to appoint a new member of the Board, the maximum duration of which is defined within the Charter and Shareholder Agreement.

THE INTERNAL AUDIT COMMITTEE

Sessions conducted in 2021: 5
Key issues discussed and resolved:

- Audit results;
- Updated report on deficiencies found during the audit process;
- Annual internal audit plan;
- Review and approve audit policies and procedures;

The Committee was created by the Supervisory Board primarily to encourage and assist internal as well as external auditing. The Committee is represented by members of the Board and the head of the Internal Audit Department. The goals of the Internal Audit Committee are to implement internal auditing processes in Crystal, as well as to monitor financial reporting, internal control systems and compliance within the legislation and regulations of the management team. This consequently allows the Supervisory Board to access reliable information, from which they will be able to make more robust and sound governance decisions.

THE RISK COMMITTEE

Sessions conducted in 2021: 6
Key issues discussed and resolved:

- Risk management outcomes including operational risks and controlling;
- AML and compliance;
- Employee outflow analysis;
- Information security report;

The Risk Committee oversees potential risks in their entirety, excluding those covered by the ALCO Committee. The objective of the Committee is to study existing credit and operational risks within the organisation, to inform the Board of any strategic risks faced by the company, and to provide recommendations for the integration or improvement of systems and processes managing and reducing risks. The Committee is a consultative body that is not involved in decision-making, however it reviews and identifies various risk-related issues, which are to be further considered by the Management Team and Chief Officers. Additionally, the Risk Committee provides the Board with recommendations on managing and mitigating risks.

THE STRATEGY, DATA AND INNOVATIONS COMMITTEE

Sessions conducted in 2021: 3
Key issues discussed and resolved:

- Development of crystal leasing;
- Digitization and digital landscape;
- Company strategy;
- Banking transformation and related projects;
- Profitability analysis;

The objective of the Committee is to ensure the implementation of Crystal's strategy. The Committee therefore enables the management and the Supervisory Board to focus on strategic analysis and decision-making processes. The Committee also supervises and implements the company's strategy. The scope of the Committee also includes supervision of innovative projects and the implementation of data transformation strategies.

FINANCIAL STATEMENTS


ჩართულობის ორგანიზაცია.

Management is responsible for the preparation of the consolidated and separate financial statements that present fairly the consolidated and separate financial position of Joint Stock Company Microfinance Organization Crystal (the "Company") and its subsidiary Crystal Consulting LLC (collectively - the "Group") as at December 31, 2021 the results of their operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated and separate financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern;
- Disclosing the information in the management report as required by the Law of Georgia on Accounting, Reporting and Auditing;
- Preparation of the management report in consistence with the consolidated and separate financial statements.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the consolidated and separate financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with Georgian legislation;
- Taking such steps that are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated and separate financial statements for the year ended December 31, 2021 were authorized for issue on June 28, 2022 by the Board of Directors of the Group.

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer
June 28, 2022
Tbilisi, Georgia

Deloitte & Touche LLC
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King David Business Center, 15th floor
12 Merab Aleksidze Street
Tbilisi, 0171, Georgia

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deloitte.g

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Supervisory Board of Joint Stock Company Microfinance Organization Crystal:

Opinion

We have audited the consolidated and separate financial statements of Joint Stock Company Microfinance Organization Crystal (the "Company") and its subsidiary (the "Group"), which comprise the consolidated and separate statements of financial position as at 31 December 2021, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Company as at 31 December 2021, and their consolidated and separate financial performance and their consolidated and separate 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 Consolidated and Separate Financial Statements* section of our report. We are independent of the Group and the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated and separate 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

Management is responsible for the other information. The other information comprises the information included in the annual report prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, but does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Deloitte.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate 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 Group's and the Company'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 Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate 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 Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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.

Deloitte.

Report on Other Legal and Regulatory Requirements

Management is responsible for the preparation of the management report in accordance with the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of the management report that is free from material misstatement, whether due to fraud or error.

We performed procedures with respect to whether the management report is prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing and includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

We have selected and performed procedures based on our judgment, including but not limited to inquiries, analysis and review of documentation, comparison of the Group's and Company's policies, procedures, methodologies and reported information with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, as well as recalculations, comparisons and reconciliations of numeric values and other information.

In our opinion:

- The management report for the year ended December 31, 2021 is prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing;
- The management report for the year ended December 31, 2021 includes the information required by the Law of Georgia on Accounting, Reporting and Auditing;
- The information provided in the management report for the year ended December 31, 2021 is consistent, in all material respects, with the consolidated and separate financial statements for the year ended December 31, 2021.

Srbuhi Hakobyan
on behalf of Deloitte and Touche LLC
Deloitte & Touche
June 28, 2022
Tbilisi, Georgia

FOR THE YEAR ENDED DECEMBER 31, 2021. (in thousands of Georgian Lari)

	Notes	2021	2020
Interest income	5	95,124	80,948
Interest expense	5	(31,744)	(29,236)
Net interest income before impairment losses on interest bearing assets		**63,380**	**51,712**
Impairment losses on interest bearing assets	12,13,17	(2,693)	(5,300)
Net interest income		**60,687**	**46,412**
Net Fee and commission expense	6	(14,980)	(1,690)
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	11	(4,620)	13,699
Net foreign exchange gain/(loss)		7,569	(20,050)
Net loan modification loss		-	(2,601)
Other income		580	851
Net non-interest expenses		**(11,451)**	**(9,791)**
Operating income		**49,236**	**36,621**
Personnel expenses	7	(26,506)	(22,567)
Depreciation and amortization expenses	14,15,16	(6,759)	(4,942)
Other operating expenses	8	(9,788)	(9,181)
Profit/(loss) before income tax		**6,183**	**(69)**
Income tax expense	9	(3,003)	(783)
Net profit/(loss) for the year		**3,180**	**(852)**
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		**3,180**	**(852)**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer
June 28, 2022
Tbilisi, Georgia

The notes on pages 66-127 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021. (in thousands of Georgian Lari)

	Notes	2021	2020
Interest income	5	95,124	80,948
Interest expense	5	(31,744)	(29,236)
Net interest income before impairment losses on interest bearing assets		**63,380**	**51,712**
Impairment losses on interest bearing assets	12,13,17	(2,693)	(5,300)
Net interest income		**60,687**	**46,412**
Net Fee and commission expense	6	(14,980)	(1,690)
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	11	(4,620)	13,699
Net foreign exchange gain/(loss)		7,568	(20,050)
Net loan modification loss		-	(2,601)
Other income		353	685
Net non-interest expenses		**(11,679)**	**(9,957)**
Operating income		**49,008**	**36,455**
Personnel expenses	7	(26,347)	(22,520)
Depreciation and amortization expenses	14,15,16	(6,735)	(4,942)
Other operating expenses	8	(9,785)	(9,181)
Profit/(loss) before income tax		**6,141**	**(188)**
Income tax expense	9	(3,003)	(783)
Net profit/(loss) for the year		**3,138**	**(971)**
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		**3,138**	**(971)**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer
June 28, 2022
Tbilisi, Georgia

The notes on pages 66-127 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2021 (in thousands of Georgian Lari)

	Notes	December 31, 2021	December 31, 2020
ASSETS			
Cash and cash equivalents	10	19,127	17,884
Financial assets at fair value through profit or loss	11	103	2,509
Loans to customers	12	347,941	315,880
Net investments in leases	13	5,662	2,246
Property and equipment	14	4,277	5,349
Right-of-use assets	15	8,295	11,309
Intangible assets	16	4,494	2,611
Current income tax asset	9	-	945
Deferred tax assets	9	1,699	2,628
Other assets	17	4,581	4,713
Total assets		**396,179**	**366,074**
LIABILITIES			
Financial liabilities at fair value through profit or loss	11	188	-
Borrowed funds	18	314,405	279,968
Debt securities issued	19	-	12,725
Lease liability	15	9,127	12,522
Dividends payable	21	996	999
Current income tax liability	9	1,124	-
Other liabilities	20	10,144	1,849
Total liabilities		**335,984**	**308,063**
EQUITY			
Share capital	21	3,635	3,635
Share premium	21	22,110	22,110
Retained earnings		34,450	32,266
Total equity		**60,195**	**58,011**
Total liabilities and equity		**396,179**	**366,074**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer
June 28, 2022
Tbilisi, Georgia

The notes on pages 66-127 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2021 (in thousands of Georgian Lari)

	Notes	December 31, 2021	December 31, 2020
ASSETS			
Cash and cash equivalents	10	19,102	17,877
Financial assets at fair value through profit or loss	11	103	2,509
Loans to customers	12	347,941	315,880
Net investments in leases	13	5,662	2,246
Property and equipment	14	4,271	5,342
Right-of-use assets	15	8,295	11,309
Intangible assets	16	4,330	2,611
Current income tax asset		-	945
Deferred tax assets	9	1,699	2,628
Other assets	17	4,581	4,598
Investment in a subsidiary		272	246
Total assets		**396,256**	**366,191**
LIABILITIES			
Financial liabilities at fair value through profit or loss	11	188	-
Borrowed funds	18	314,405	279,968
Debt securities issued	19	-	12,725
Lease liability	15	9,127	12,522
Dividends payable	21	996	999
Current income tax liability	9	1,124	-
Other liabilities	20	10,144	1,847
Total liabilities		**335,984**	**308,061**
EQUITY			
Share capital	21	3,635	3,635
Share premium	21	22,110	22,110
Retained earnings		34,527	32,385
Total equity		**60,272**	**58,130**
Total liabilities and equity		**396,256**	**366,191**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer
June 28, 2022
Tbilisi, Georgia

The notes on pages 66-127 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands of Georgian Lari)

	Notes	Share capital	Share premium	Retained earnings	Total
January 1, 2020		**3,635**	**22,110**	**34,117**	**59,862**
Total comprehensive loss for the year		-	-	(852)	(852)
Dividends declared	21	-	-	(999)	(999)
December 31, 2020		**3,635**	**22,110**	**32,266**	**58,011**
Total comprehensive income for the year		-	-	3,180	3,180
Dividends declared	21	-	-	(996)	(996)
December 31, 2021		**3,635**	**22,110**	**34,450**	**60,195**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer
June 28, 2022
Tbilisi, Georgia

The notes on pages 66-127 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands of Georgian Lari)

	Notes	Share capital	Share premium	Retained earnings	Total
January 1, 2020		**3,635**	**22,110**	**34,355**	**60,100**
Total comprehensive loss for the year		-	-	(971)	(971)
Dividends declared	21	-	-	(999)	(999)
December 31, 2020		**3,635**	**22,110**	**32,385**	**58,130**
Total comprehensive income for the year		-	-	3,138	3,138
Dividends declared	21	-	-	(996)	(996)
December 31, 2021		**3,635**	**22,110**	**34,527**	**60,272**

On behalf of the Board of Directors:

Ilia Revia
Chief Executive Officer
June 28, 2022
Tbilisi, Georgia

The notes on pages 66-127 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands of Georgian Lari)

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before income tax		6,183	(69)
Adjustments for:			
Net loss/(gain) on financial assets and liabilities at fair value through profit or loss		4,620	(13,699)
Net loan modification loss		-	2,601
Depreciation and amortization expenses	14,15,16	6,759	4,942
Interest income	4	(95,124)	(80,948)
Interest expenses	4	31,744	29,236
Impairment losses on interest bearing assets	5	2,693	5,300
Net foreign exchange (gain)/loss		(7,569)	20,050
Loss on disposal of property and equipment		3	56
Gain on lease cancellations		(9)	(5)
Cash outflow from operating activities before changes in operating assets and liabilities		**(50,700)**	**(32,536)**
Changes in operating assets and liabilities:			
Net (increase) in financial assets/net increase in financial liabilities at fair value through profit or loss		(2,110)	2,198
Increase in loans to customers		(36,529)	(22,672)
Increase in investments in leases		(3,500)	(2,266)
Decrease/(increase) in other assets		61	(671)
Increase in other liabilities		8,291	221
Net changes in operating assets and liabilities		**(33,787)**	**(23,190)**
Interest received		96,975	77,576
Interest paid		(31,459)	(28,040)
Income tax paid		(5)	(476)
Net cash used in operating activities		**(18,976)**	**(6,666)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	14	(1,127)	(1,747)
Purchases of intangible assets	16	(2,989)	(544)
Proceeds from sale of property and equipment		190	88
Net cash used in investing activities		**(3,926)**	**(2,203)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowed funds	18	185,290	122,701
Repayments of borrowed funds	18	(143,177)	(120,648)
Repayments of debt security	19	(12,407)	-
Repayments of lease liabilities	15	(3,521)	(2,727)
Dividends paid	21	(999)	(769)
Net cash generated from/(used in) financing activities		**25,186**	**(1,443)**
Net increase/(decrease) in cash and cash equivalents		**2,284**	**(10,312)**
Effect of exchange rate changes on the balance of cash held in foreign currencies		(1,041)	8,090
Cash and cash equivalents as at the beginning of the year	10	17,884	20,106
Cash and cash equivalents at the end of the year	10	**19,127**	**17,884**

On behalf of the Board of Directors:
Ilia Revia
Chief Executive Officer
June 28, 2022
Tbilisi, Georgia

The notes on pages 66-127 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands of Georgian Lari)

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before income tax		6,141	(188)
Adjustments for:			
Net loss/(gain) on financial assets and liabilities at fair value through profit or loss		4,620	(13,699)
Net loan modification loss		-	2,601
Depreciation and amortization expenses	14,15,16	6,735	4,942
Interest income	4	(95,124)	(80,948)
Interest expenses	4	31,744	29,236
Impairment losses on interest bearing assets	5	2,693	5,300
Net foreign exchange (gain)/loss		(7,568)	20,050
Loss on disposal of property and equipment		3	56
Gain on lease cancellations		(9)	(5)
Cash outflow from operating activities before changes in operating assets and liabilities		**(50,765)**	**(32,655)**
Changes in operating assets and liabilities:			
Net (increase) in financial assets/net increase in financial liabilities at fair value through profit or loss		(2,110)	2,198
Increase in loans to customers		(36,529)	(22,672)
Increase in investments in leases		(3,500)	(2,266)
Increase in other assets		(54)	(556)
Increase in other liabilities		8,293	219
Net changes in operating assets and liabilities		**(33,900)**	**(23,077)**
Interest received		96,975	77,576
Interest paid		(31,459)	(28,040)
Income tax paid		(5)	(476)
Net cash used in operating activities		**(19,154)**	**(6,672)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in a subsidiary		(26)	(6)
Purchases of property and equipment	14	(1,126)	(1,739)
Purchases of intangible assets	16	(2,804)	(544)
Proceeds from sale of property and equipment		190	88
Net cash used in investing activities		**(3,766)**	**(2,201)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowed funds	18	185,290	122,701
Repayments of borrowed funds	18	(143,177)	(120,648)
Repayments of debt security	19	(12,407)	-
Repayments of lease liabilities	15	(3,521)	(2,727)
Dividends paid	21	(999)	(769)
Net cash received from/(used in) financing activities		**25,186**	**(1,443)**
Net increase/(decrease) in cash and cash equivalents		**2,266**	**(10,316)**
Effect of exchange rate changes on the balance of cash held in foreign currencies		(1,041)	8,090
Cash and cash equivalents as at the beginning of the year	10	17,877	20,103
Cash and cash equivalents as at the end of the year	10	**19,102**	**17,877**

On behalf of the Board of Directors:
Ilia Revia
Chief Executive Officer
June 28, 2022
Tbilisi, Georgia

The notes on pages 66-127 form an integral part of these consolidated and separate financial statements.

(in thousands of Georgian Lari)

1. ORGANIZATION

JSC Microfinance Organization Crystal ("the Company") was established on August 23, 2007 on the basis of the decision of the Crystal Fund (Board's Resolution #20, August 21, 2007) according to the Georgian Law on Microfinance Organizations dated 18 July 2006.

On January 26, 2018 the Company established 100% subsidiary – Crystal Consulting LLC. The subsidiary is now gradually starting the operations and its major activities will be business consulting, organizational development, leadership, technical and technological advice and service provision for micro and small entrepreneurs.

The legal address of JSC Microfinance Organization Crystal and Crystal Consulting LLC (the "Group") is 22 Nikea Street, Kutaisi, Georgia.

The supreme governing body of the Group is the General Meeting of Shareholders.

The supervision of the Group's operations is conducted by the Supervisory Board, members of which are appointed by the General Meeting of Shareholders. Daily management of the Group is carried out by the Management Team appointed by the Supervisory Board.

The Group objectives are to support and develop micro, small and medium businesses in Georgia, to improve the social and economic conditions of clients by providing them with accessible financial services.

The main activity of the Group is micro lending. The Group's financial products are: individual business loans, agricultural loans, consumer loans, pawnshop loans, housing loans and SME loans.

As at December 31, 2021 the Group has fifty branches (2020: fifty branches) around Georgia and the head offices are located in Tbilisi and Kutaisi.

As at December 31, 2021 and 2020 the following shareholders owned the Group:

	December 31,2021	December 31, 2020
First level shareholders/holders of the issued share capital:		
AGRIF COÖPERATIEF U.A.	38.75%	38.75%
DWM Funds S.C.A-SICAV SIF	12.37%	12.37%
Fund Crystal	0.09%	1.07%
Individual shareholders	48.79%	47.81%
Total	**100%**	**100%**

As at December 31, 2021 and December 31, 2020 the Group's major shareholders are AGRIF COÖPERATIEF U.A. and DWM Funds S.C.A-SICAV SIF with 38.75% and 12.37%, respectively.

The Group is registered in Georgia and maintains its accounting records in accordance with Georgian law. These consolidated and separate financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS. The Group presents its consolidated and separate statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 26.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance – These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of consolidation – The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (subsidiaries). Control is achieved when the Company: a) has power over the investee; b) is exposed, or has rights, to variable returns from its involvement with the investee; and c) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including: the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders; potential voting rights held by the Group, other vote holders or other parties; rights arising from other contractual arrangements; and any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Going concern – These consolidated and separate financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. In making this assumption, the management considered the Group's financial position, current intentions, profitability of operations and access to financial resources.

As of December 31, 2021 current assets exceeded current liabilities by GEL 82,733 thousand (December 31, 2020: negative gap of GEL 106,784 thousand). During the year 2021 the Group generated net income of GEL 3,180 thousand, whereas the year 2020 was loss-making - GEL 852 thousand.

Due to overall financial results of the Group as at and for the year ended December 31, 2021, Group is compliant with covenants. During the 2021, several covenants under credit agreements obtained from both resident commercial banks and international lenders were breached. On the breach of the contractual covenants, the Group promptly approached all of its partners in 2021, requesting them to issue corresponding waivers. In all cases, the corresponding waivers were obtained in a timely manner before the end of 2021. The Group also managed to adjust the covenants, bringing them in line with the existing reality. In 2021, a total of USD 65 mln was raised, with 48% coming from local partners and the remaining 52% - from foreign lenders. There hasn't been a single case of a lender recalling a facility ahead of time. The group has a well-diversified pool of partners, allowing it to effectively manage both liquidity and cost of funds over the year.

The Group's management believes that based on current forecasts and measures, the Group has enough funds to continue its activities in the foreseeable future. See also note 27.

These consolidated and separate financial statements have been prepared on the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs for the asset or liability.

Functional and presentation currency – Items included in the consolidated and separate financial statements are measured using the currency of the primary of the economic environment in which the Group operates ("the functional currency"). The functional currency of the Group is the Georgian Lari ("GEL"). The presentational currency of the consolidated and separate financial statements of the Group is the GEL. Financial information presented in GEL is rounded to the nearest thousands, except when otherwise indicated.

Offsetting – Financial assets and financial liabilities are offset and the net amount reported in the consolidated and separate statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Notes to the consolidated and separate financial statements – Notes are disclosed for consolidated financial statements only, since the management believes that there are no material differences between consolidated and separate figures.

The principal accounting policies are set out below.

RECOGNITION OF INTEREST INCOME AND EXPENSE

Interest income and expense are recognized in profit or loss using the effective interest method by applying the effective interest rate. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance, except for: a) purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. B) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets, except for those classified as held for trading or those measured or designated as at fair value through profit or loss (FVTPL). For those financial assets, the Group applies the effective interest rate to the amortised cost, i.e. the gross carrying amount less the allowance for expected credit losses (ECLs), of the financial asset in subsequent reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. Penalty income is included in interest income, as considered compensation of credit risk.

When calculating the effective interest rate, the Group estimates the expected cash flows by considering all the contractual terms of the financial instrument excluding expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

RECOGNITION OF FEE AND COMMISSION INCOME

Financial instrument origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the financial instrument.

Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided.

All other fee and commissions are recognized when services are provided.

FINANCIAL INSTRUMENTS

Initial recognition of financial instruments

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

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Group accounts for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss).

- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

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).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- 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.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- 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.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

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.

On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group's financial assets classified into the measurement categories are as following:

Financial assets	Business model	SPPI	Measurement category
Derivative financial assets	Other business model	Cash flows are not solely payments of principal and interest	FVTPL
Cash balances in banks	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Loans to customers	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Net investments in leases	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Other receivables	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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.

Assessment whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- Contingent events that would change the amount or timing of cash flows;

- Terms that may adjust the contractual coupon rate, including variable rate features;

- Prepayment and extension features; and

- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described below.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and unrestricted balances in banks with original maturity of less or equal to 90 days and are free from contractual encumbrances. Cash and cash equivalents are carried at amortised cost.

Loans to customers and other receivables

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

Derivative financial instruments

Derivative financial instruments included in financial assets at fair value through profit or loss or loss in the consolidated 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.

Investments in subsidiary

A subsidiary is an entity, that is controlled by the Company. Investment in subsidiary is recorded in these separate financial statements at cost less impairment loss, if any.

Net investments in leases

At the commencement of the lease, the lessor recognises a lease receivable in its statement of financial position at an amount equal to the net investment in the lease. Net investment in the lease is the sum of the following items discounted at the interest rate implicit in the lease:

a. the lease payments receivable by a lessor under a finance lease; and

b. any unguaranteed residual value accruing to the lessor.

The rate implicit in the lease is the interest rate set by the lessor in the lease agreement. This is the rate at which the present value of the lease payments and the unguaranteed residual value equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor.

Initial direct costs are incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained.

Initial direct cost are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term.

The lessor reduces the net investment in the lease for payments received. A lessor shall recognise finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. A lessor aims to allocate finance income over the lease term on a systematic and rational basis. A lessor shall apply the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income.

Impairment

The Group recognises loss allowances for expected credit losses (ECLs) on the financial assets that are not measured at FVTPL.

With the exception of purchased or originated credit-impaired ("POCI") financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

Loss allowances for other receivables are always measured at an amount equal to lifetime ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

The Group measures ECL on a collective basis for portfolios of loans that share similar economic risk characteristics.

More information on measurement of ECLs is provided in note 26, including details on how instruments are grouped when they are assessed on a collective basis.

Credit-impaired financial assets
A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default.

The definition of default (see below) includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired financial assets
POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default
Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.
See Note 26 for more details about default definition.

Significant increase in credit risk
The Group monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Group monitors all financial assets that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.
See Note 26 for more details about forward looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

Forward-looking information includes the future prospects of Georgian economy obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information.

The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. 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.

The PDs used are forward looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. The Group considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.
More information about significant increase in credit risk is provided in Note 26.

Presentation of allowance for ECL in the consolidated statement of financial position
Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the consolidated statement of financial position as the carrying amount is at fair value.
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan terms is modified in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to other terms.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition.

For financial assets modified as part of the Group's restructuring policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar restructuring action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

FINANCIAL LIABILITIES AND EQUITY

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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

Preferred stock
The holders of preferred stock are entitled to receive dividends at annual interest rate of 10%. Preferred stock is classified as equity, since according to Georgian legislation any promise of dividends is void and based on profit for the year and management decision.

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

Share based payment reserve
Share-based compensation benefits are provided to employees via the Management Incentive Plan. Information relating to this plan is set out in Note 8.

The fair value of deferred shares granted to employees is measured at the grant date of the shares and is recognised in equity in the share-based payment reserve. The number of shares expected to vest is estimated based on the non-market vesting conditions. The estimates are revised at the end of each reporting period and adjustments are recognised in profit or loss and the share-based payment reserve.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Georgian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

Other financial liabilities
'Other financial liabilities', including borrowed funds, debt securities issued and other non-derivative financial liabilities are initially measured at fair value, net of transaction costs.

'Other financial liabilities' are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" above.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(in thousands of Georgian Lari)

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

FOREIGN CURRENCIES

In preparing the consolidated financial statements, transactions in currencies other than the Group's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	December 31, 2021	December 31, 2020
GEL/1 US Dollar	3.0976	3.2766
GEL/1 Euro	3.5040	4.0233

PROPERTY AND EQUIPMENT

Property and equipment is carried at historical cost less accumulated depreciation and any recognized impairment loss, if any.

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the entity, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight-line basis at the following useful lives:

Buildings	30 years
Vehicles	5 years
Furniture	3 to 6 years
IT equipment	3 to 6 years
Leasehold improvement	3 to 5 years
Other	2 to 6 years

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in the operating expenses unless they qualify for capitalization.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in the operating expenses unless they qualify for capitalization.

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 cost to sell and value in use. Where carrying values exceeded the estimated recoverable amount, assets are written down to their recoverable amount; impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

INTANGIBLE ASSETS

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful lives range from 5 to 10 years.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Intangible assets are assessed for impairment when there is an indication that the intangible assets may be impaired.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

REPOSSESSED ASSETS

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. The Group views the repossessed assets as a form of settlement of amounts due under the defaulted loan and that it is an asset acquired and held for sale in the ordinary course of business.

Repossessed assets are initially recognized at fair value and subsequent measured at the lower of carrying amount and fair value less costs to sell.

TAXATION

Income tax
Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax
Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after January 1, 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law initially was effective for financial institutions from January 1, 2020. The parliament of Georgia extended effective date of application of the law few times, the latest being January 1, 2023.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However, some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

Tax reimbursement is available for the current tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2023 or further years.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are paid.

Deferred tax
Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities until 1 January 2023, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available until January 1, 2023 against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from January 1, 2025 and hence, no deferred income tax assets and liabilities will arise, there on.

Operating taxes

Georgia also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss and other comprehensive income.

EMPLOYEE BENEFITS

Share-based payment arrangements

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-base payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for the differences between expected and actual outcomes.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

LEASES

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient.

The Group is not represented as Lessor during the years ended December 31, 2021 and 2020.

PROVISIONS

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

CONTINGENCIES

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

COLLATERAL

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, the Group's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other forward-looking information that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Loss allowances for expected credit losses

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

- **Establishing forward-looking scenarios:** When measuring ECL the Group 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.
  See Note 26 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information

- **Significant increase in credit risk:** As explained in note 3, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.
  See Note 26 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

- **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.
  See Note 26 for more details, including analysis of the sensitivity of the reported ECL to changes in PD.

- **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.
  See Note 26 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD.

Key updates in ECL methodology

Starting from 2020, PD counting methodology has been changed; instead of group PD, both 1-year PD and lifetime PD are calculated for individual loans. Instead of the migration matrix, we use much more accurate and modern method: Cox Proportional-Hazards Model.

The grading method was abolished, because the only motive for the existence of grading was to group loans according to certain characteristics and then calculate PD based on the migration matrix.

Stage improvement rules have been specified and fully automated. From 2020, the Group introduced cure period of 6 months and 12 months for stage 2 and stage 3 loans, respectively. In addition, the parallel loans of the same borrowers are assessed separately. The new approach is fully in line with market best practices.

In LGD part, the recovery rate is discounted at the effective rate of defaulted loans only, and not of all loans, as it used to be before. This change is very logical because only defaults are included in the calculation of LGD.

ECL calculation process has become maximally automated; eventually PD, staging and ECL calculations are made in R, allowing the process to be more secure and the data to be more easily controlled.
For details, refer to Note 26.

RECOVERABILITY OF DEFERRED TAX ASSETS

The Parliament of Georgia enacted the changes in the Tax Code of Georgia effective from January 1, 2023, for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops. The new code impacts the recognition and measurement principles of the Group's income tax and it also affects the Group's deferred income tax assets/liabilities. Financial institutions do not have to pay income tax on their profit before tax (earned since 1 January 2023) until that profit is distributed in a form of dividend or other forms of profit distributions.

Whist this law will come into effect for the financial sector from January 2023, it has a more immediate impact on deferred tax calculations. Starting from January 1, 2023 the financial institutions will not hold deferred tax assets or liabilities due to the fact that corporate income tax will be only accrued when dividends are declared.

The management of the Group is confident deferred income tax assets/liabilities balances will be fully utilised before the effective date of the law or the effect will be immaterial for the users of consolidated financial statements. The carrying value of deferred tax assets amounted to GEL 1,699 thousand and GEL 2,628 thousand as at December 31, 2021 and 2020, respectively.

FAIR VALUATION OF FINANCIAL INSTRUMENTS

As described in Note 24, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 24 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

(in thousands of Georgian Lari)

4. AMENDMENTS TO IFRS AFFECTING AMOUNTS REPORTED IN THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In the current year, the Group has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after January 1, 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated and separate financial statements.

Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The amendments are not relevant to the Group given that it does not apply hedge accounting to its benchmark interest rate exposures. Respectively, the application of the amendments does not impact the Group's accounting for the year ended December 31, 2021.

The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9.

COVID-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession applying IFRS 16 as if the change were not a lease modification. The Group did not elect COVID-19 related rent concession approach, performed the assessment of amended lease agreements and concluded that they represent modifications.

NEW AND REVISED STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

At the date of authorization of these consolidated and separate financial statements, the Group has not applied the following new and revised IFRS standards that have been issued but are not yet effective:

IFRS 17	Insurance Contracts
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment—Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to IFRS Standards 2018-2021 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture

(in thousands of Georgian Lari)

Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The management do not expect that the adoption of the Standards listed above will have a material impact on the consolidated and separate financial statements of the Group in future periods.

5. NET INTEREST INCOME

	2021	2020
Interest income calculated using the effective interest rate method:		
Loans to customers	89,517	76,796
Cash and cash equivalents	54	1,024
Investments in leases	1,245	263
Other income	1,088	723
	91,904	**78,806**
Other interest income:		
Penalty income	3,220	2,142
Total interest income on financial assets measured at amortised cost	**95,124**	**80,948**
Interest expenses		
Borrowed funds	(30,822)	(26,990)
Debt securities issued	(157)	(1,555)
Lease liability	(765)	(691)
	(31,744)	**(29,236)**
Net interest income	**63,380**	**51,712**

6. NET FEE AND COMMISSION EXPENSE

	2021	2020
Other fee and commission income	740	517
Net fee and commission (expense)/ income from foreign currency conversion	(15,422)	(1,686)
Other fee and commission expense	(298)	(521)
	(14,980)	**(1,690)**

(in thousands of Georgian Lari)

7. PERSONNEL EXPENSES

Personnel expenses for the year 2021 and 2020 were as follows:

	2021	2020
Salaries and other benefits	26,506	22,567
	26,506	**22,567**

MANAGEMENT INCENTIVE PLAN, SHARE BASED PAYMENTS

On December 12, 2014 Supervisory Board approved Management Incentive Plan ("MIP"). The purpose of the MIP was to increase motivation and incentivize the Group's management executive team in order to deliver the equity growth strategy, foster and safeguard the interest of the Group, its shareholders and a wider group of stakeholders.

As at and for the year ended December 31, 2021 and December 31, 2020, MIP was neither designed nor recognized and distributed, as decided by the Supervisory Board.

8. OTHER OPERATING EXPENSES

	2021	2020
Utilities and communication	1,694	1,362
Software technical support and maintenance	1,581	1,154
Bank charges	741	592
Consumables and office supplies	698	516
Legal and other professional services	695	987
Taxes other than on income	692	354
Membership fees	642	567
Insurance	443	483
Marketing and advertising	421	353
Loss on irrecoverable other assets	310	12
Fuel	262	214
Repairs and maintenance	186	124
Security	184	193
Expense related to short-term leases and low-cost items	166	1,243
Business trips	104	100
Personnel training and recruitment	79	41
Charity	-	19
Other	890	867
	9,788	**9,181**

(in thousands of Georgian Lari)

9. TAXATION

	2021	2020
Current year tax expense	2,074	-
	2,074	**-**
Movement in deferred tax assets and liabilities due to origination or/and reversal of temporary differences	929	783
Total income tax expense	**3,003**	**783**

The applicable tax rate for current and deferred tax is 15% for the years ended December 31, 2021 and 2020.

As of 31 December 2020, the Group had unrecorded tax loss carried forward amount of GEL 186 thousand, because of the accumulated tax losses, which equalled GEL 1,239 thousand. In 2021 previous year loss was fully utilized.

Reconciliation of effective tax rate for the year ended 31 December:

	2021	2020
Profit / (Loss) before tax	**6,183**	**(69)**
Income tax at the statutory rate	927	(10)
Unrecognized deferred tax	871	654
Tax effect of permanent differences	1,205	139
Total income tax (benefit)/ expense	**3,003**	**783**

DEFERRED TAX ASSETS AND LIABILITIES

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at December 31, 2021 and 2020.

Starting from January 1, 2023 due to introduction of new profit tax model, the financial institutions will not hold deferred tax assets or liabilities due to the fact that corporate income tax will be only accrued when dividends are declared. According to the management of Group, at the moment of transition to the new profit tax model, some part of deferred tax asset will not be utilized. Respectively, the deferred tax amount is decreased by GEL 871 thousand and GEL 654 thousand as of December 31, 2021 and December 31, 2020. Unutilized amounts are fully attributable to loans to customers.

(in thousands of Georgian Lari)

Movements in temporary differences during the years ended 31 December 2021 and 2020 are presented as follows.

	January 1, 2021	Recognized in profit or loss	December 31, 2021
Loans to customers	2,080	(536)	1,544
Property and equipment	8	55	63
Intangible assets	17	102	119
Other assets	18	(18)	-
Financial liabilities at fair value through profit or loss	(148)	148	-
Loans and borrowings	347	(659)	(312)
Lease liability	182	(57)	125
Other liabilities	124	36	1,544
	2,628	**(929)**	**1,699**

	January 1, 2020	Recognized in profit or loss	December 31, 2020
Loans to customers	3,019	(939)	2,080
Property and equipment	(35)	43	8
Intangible assets	(57)	74	17
Other assets	(20)	38	18
Financial liabilities at fair value through profit or loss	(13)	(135)	(148)
Loans and borrowings	334	13	347
Lease liability	51	131	182
Other liabilities	132	(8)	124
	3,411	**(783)**	**2,628**

(in thousands of Georgian Lari)

10. CASH AND CASH EQUIVALENTS

	December 31, 2021	December 31, 2020
Cash on hand	13,502	12,840
Bank balances	5,625	5,044
Total cash and cash equivalents	**19,127**	**17,884**

None of the balances with Group are past due. No loss allowance is recognised for balances with banks due to short-term nature. Group balances include current accounts at banks in Georgia and are used for the purpose of the daily activities of the Group.

As at December 31, 2021 and 2020 the majority of the Group's cash in banks is with banks rated by Fitch Ratings as B (short-term rating), BB- (long-term rating).

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

	December 31, 2021	December 31, 2020
Financial assets at fair value through profit or loss		
Derivative financial assets		
Currency swap contracts	103	2,509
Financial assets at fair value through profit or loss	**103**	**2,509**

	December 31, 2021	December 31, 2020
Financial liabilities at fair value through profit or loss		
Derivative financial liabilities		
Foreign currency forward contracts	185	-
Currency swap contracts	3	-
Financial liabilities at fair value through profit or loss	**188**	**-**

Financial assets and liabilities at fair value through profit or loss comprise foreign currency contracts.

CURRENCY SWAPS

The Group 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;

(in thousands of Georgian Lari)

- 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

Forwards are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts.

In a foreign currency forwards, the Group 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 December 31, 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.

	Notional amount	
	December 31, 2021	**December 31, 2020**
Sell USD buy GEL		
Less than 3 months	180,854	157,113
	180,854	**157,113**
Sell GEL buy CHF		
Less than 3 months	2,026	-
	2,026	**-**
Sell CHF buy GEL		
Less than 3 months	-	1,855
		1,855
Sell CHF buy USD		
Less than 3 months	-	4,011
		4,011
Sell EUR buy USD		
Less than 3 months	-	12,070
		12,070

(in thousands of Georgian Lari)

12. LOANS TO CUSTOMERS

	December 31, 2021	December 31, 2020
Principal	351,943	317,477
Accrued interest	9,998	11,849
Less: expected credit losses	(14,000)	(13,446)
Total loans to customers	**347,941**	**315,880**
Analysis by products groups:		
Micro business loans	71,869	50,221
Agricultural loans	68,052	55,103
Consumer loans	54,469	30,767
SME loans	53,424	67,400
Fast instalment loans	48,879	42,740
Pawnshop loans	37,025	29,939
Housing loans	28,223	53,156
Total loans to retail customers	**361,941**	**329,326**
Gross loans to customers		
Less: expected credit losses	(14,000)	(13,446)
Net loans to customers	**347,941**	**315,800**

All loans to customers are measured at amortised cost. The loans to customers are aggregated into homogeneous product groups, whereby loans in each group display similar characteristics, considering their performance, related risks and underlying business processes.

The following table provides information by loans product groups as at December 31, 2021:

	Gross carrying amount	Loss allowance	Carrying amount
Loans to retail customers:			
Micro business loans	71,869	(3,038)	68,831
Agricultural loans	68,052	(4,638)	63,414
Consumer loans	54,469	(1,891)	52,578
SME loans	53,424	(3,113)	50,311
Fast instalment loans	48,879	(956)	47,923
Pawnshop loans	37,025	(96)	36,929
Housing loans	28,223	(268)	27,955
Total loans to customers	**361,941**	**(14,000)**	**347,941**

(in thousands of Georgian Lari)

The following table provides information by loans product groups as at December 31, 2020:

	Gross carrying amount	Loss allowance	Carrying amount
Loans to retail customers:			
SME loans	67,400	(3,143)	64,257
Housing loans	53,156	(1,366)	51,790
Agricultural loans	55,103	(3,761)	51,342
Micro business loans	50,221	(2,611)	47,610
Fast instalment loans	42,740	(1,359)	41,381
Pawnshop loans	29,939	(20)	29,919
Consumer loans	30,767	(1,186)	29,581
Total loans to customers	**329,326**	**(13,446)**	**315,880**

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

	2021			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL - not credit-impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	3,636	3,295	6,515	13,446
New loans originated	5,576	-	-	5,576
Transfer to 12-month ECL	326	(326)	-	-
Transfer to lifetime ECL not credit-impaired	(4,923)	3,416	1,507	-
Transfer to lifetime ECL credit-impaired	-	(3,395)	3,395	-
Repaid loans	(1,940)	(693)	(719)	(3,352)
Sold loans	129	55	3,692	3,876
Written off for the year	-	(2)	(6,720)	(6,722)
Recoveries of previously written off	160	8	3,688	3,856
Changes due to change in credit-risk	126	948	(1,896)	(822)
Interest income correction	-	-	(1,860)	(1,860)
Foreign exchange loss	-	-	2	2
Balance at the end of the year	**3,090**	**3,306**	**7,604**	**14,000**

(in thousands of Georgian Lari)

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

	2021			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL - not credit-impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	256,460	62,049	10,817	329,326
New loans originated	220,404	-	-	220,404
Transfer to 12-month ECL	3,483	(3,483)	-	-
Transfer to lifetime ECL not credit-impaired	(48,912)	49,846	(934)	-
Transfer to lifetime ECL credit-impaired	-	(7,520)	7,520	-
Repaid loans	(142,981)	(39,538)	(6,229)	(188,748)
Sold loans	129	55	3,692	3,876
Written off for the year	-	(2)	(6,720)	(6,722)
Recoveries of previously written off	160	8	3,688	3,856
Foreign exchange loss	(39)	(8)	(2)	(49)
Balance at the end of the year	**288,704**	**61,406**	**11,831**	**361,941**

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

	2020			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL - not credit-impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	2,975	3,942	6,356	13,273
New loans originated	5,209	-	-	5,209
Transfer to 12-month ECL	1,427	(1,427)	-	-
Transfer to lifetime ECL not credit-impaired	(6,166)	6,326	(160)	-
Transfer to lifetime ECL credit-impaired	-	(4,688)	4,688	-
Repaid loans	(1,457)	(1,215)	(348)	(3,020)
Written off for the year	(4)	-	(6,872)	(6,876)
Recoveries of previously written off	7	3	1,486	1,496
Changes due to change in credit-risk	1,633	344	993	2,970
Interest income correction	-	-	352	352
Foreign exchange gain	12	10	20	42
Balance at the end of the year	**3,636**	**3,295**	**6,515**	**13,446**

(in thousands of Georgian Lari)

Respective movements in the gross carrying amounts of loans to customers for the year ended December 31, 2020 are as follows:

	2020			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL - not credit-impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	214,927	84,948	10,609	310,484
New loans originated	221,302	-	-	221,302
Transfer to 12-month ECL	20,051	(20,051)	-	-
Transfer to lifetime ECL not credit-impaired	(58,316)	58,884	(568)	-
Transfer to lifetime ECL credit-impaired	-	(6,267)	6,267	-
Repaid loans	(141,838)	(55,539)	(115)	(197,492)
Written off for the year	(4)	-	(6,872)	(6,876)
Recoveries of previously written off	7	3	1,486	1,496
Foreign exchange loss	331	71	10	412
Balance at the end of the year	**256,460**	**62,049**	**10,817**	**329,326**

13. NET INVESTMENTS IN LEASES

The following table provides information by investment sector as at December 31, 2021:

	Gross carrying amount	**Loss allowance**	**Carrying amount**
Investments in leases:			
Construction	1,331	(15)	1,316
Service	1,089	(29)	1,060
Transportation and logistics	718	(11)	707
Trade	717	(32)	685
Agriculture	553	(3)	550
Beauty and healthcare	484	(6)	478
Manufacturing	452	(3)	449
Consumer	241	(1)	240
Real estate development	44	(3)	41
Tourism	35	-	35
HoReCa	13	-	13
Other	89	(1)	88
Total investments in leases	**5,766**	**(104)**	**5,662**

(in thousands of Georgian Lari)

The following table provides information by investment sector as at December 31, 2020:

	Gross carrying amount	Loss allowance	Carrying amount
Investments in leases:			
Construction	363	(2)	361
Service	612	(5)	607
Transportation and logistics	243	(3)	240
Trade	252	(3)	249
Agriculture	104	(1)	103
Beauty and healthcare	280	(2)	278
Manufacturing	239	(3)	236
Consumer	90	-	90
Real estate development	71	(1)	70
HoReCa	12	-	12
Total investments in leases	**2,266**	**(20)**	**2,246**

14. PROPERTY AND EQUIPMENT

	Buildings	Vehicles	Furniture	IT equipment	Leasehold improve-ments	Other	Total
Cost							
at January 1, 2021	105	1,184	1,306	4,511	6,299	4,220	17,625
Additions	-	5	39	655	278	150	1,127
Disposals	-	-	(5)	(50)	-	(204)	(259)
at December 31, 2021	**105**	**1,189**	**1,340**	**5,116**	**6,577**	**4,166**	**18,493**
Accumulated depreciation							
at January 1, 2021	(44)	(781)	(983)	(2,393)	(4,872)	(3,203)	(12,276)
Depreciation for the year	(5)	(123)	(156)	(655)	(687)	(380)	(2,006)
Eliminated on disposals	-	-	5	47	-	14	66
at December 31, 2021	**(49)**	**(904)**	**(1,134)**	**(3,001)**	**(5,559)**	**(3,569)**	**(14,216)**
Carrying amount							
At December 31, 2021	**56**	**285**	**206**	**2,115**	**1,018**	**597**	**4,277**

(in thousands of Georgian Lari)

	Buildings	Vehicles	Furniture	IT equipment	Leasehold improve-ments	Other	Total
Cost							
at January 1, 2020	105	1,184	1,229	3,399	6,087	4,071	16,075
Additions	-	-	69	967	301	410	1,747
Disposals	-	-	(6)	(2)	(89)	(100)	(197)
Transfers	-	-	14	147	-	(161)	-
at December 31, 2020	**105**	**1,184**	**1,306**	**4,511**	**6,299**	**4,220**	**17,625**
Accumulated depreciation							
at January 1, 2020	(41)	(607)	(802)	(1,911)	(4,346)	(2,766)	(10,473)
Depreciation for the year	(3)	(174)	(187)	(482)	(566)	(444)	(1,856)
Eliminated on disposals	-	-	6	-	40	7	53
at December 31, 2020	**(44)**	**(781)**	**(983)**	**(2,393)**	**(4,872)**	**(3,203)**	**(12,276)**
Carrying amount							
At December 31, 2020	**61**	**403**	**323**	**2,118**	**1,427**	**1,017**	**5,349**

Other property and equipment mainly consists of security systems and generators. As at December 31, 2021 and December 31, 2020 fully depreciated items represented GEL 9,489 thousand and GEL 6,188 thousand, respectively. There are no capitalized borrowing costs related to the acquisition or construction of property and equipment during the years ended December 31, 2021 and 2020.

15. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	Buildings and Offices	Vehicles	Total
Cost			
Balance at 1 January 2021	13,813	1,047	14,860
Additions	178	510	688
Cancellations	(33)	(74)	(107)
Modification of leases	52	-	52
Balance at 31 December 2021	**14,010**	**1,483**	**15,493**
Depreciation			
Balance at 1 January 2021	(2,893)	(658)	(3,551)
Depreciation for the year	(3,352)	(295)	(3,647)
Balance at 31 December 2021	**(6,245)**	**(953)**	**(7,198)**
Carrying amount			
At 31 December 2021	**7,765**	**530**	**8,295**

(in thousands of Georgian Lari)

	Buildings and Offices	Vehicles	Total
Cost			
Balance at 1 January 2021	3,516	1,023	4,539
Additions	10,433	120	10,553
Cancellations	-	(96)	(96)
Modification of leases	(136)	-	(136)
Balance at 31 December 2021	**13,813**	**1,047**	**14,860**
Depreciation			
Balance at 1 January 2021	(659)	(303)	(962)
Depreciation for the year	(2,234)	(355)	(2,589)
Balance at 31 December 2021	**(2,893)**	**(658)**	**(3,551)**
Carrying amount			
At 31 December 2020	**10,920**	**389**	**11,309**

Movements in lease liabilities in 2021 and 2020 were as follows:

	2021	2020
Balance at 1 January	12,522	3,914
Additions	688	10,553
Cancellations	(116)	(101)
Modifications	52	(136)
Interest expense	765	691
Foreign exchange (gain) / loss	(486)	577
Repayment of lease interest	(777)	(249)
Repayment of lease principal	(3,521)	(2,727)
Total	**9,127**	**12,522**

During 2020 the Group has re estimated the lease terms for its 48 branches and recognized on balance according to IFRS 16.

Weighted average lease term for the right-of-use assets as of December 31, 2021 and December 31, 2020 is 4.6 and 3.8 years respectively and the weighted average lessee’s incremental borrowing rate applied to the lease liabilities as of December 31, 2021 and December 31, 2020 is 7.7% and 7.3% respectively.

(in thousands of Georgian Lari)

Lease Liability	December 31, 2021	December 31, 2020
Maturity analysis	**Amounts payable under finance leases**	**Amounts payable under finance leases**
Year 1	4,206	4,391
Year 2	3,315	4,068
Year 3	1,492	3,100
Year 4	532	1,506
Year 5	222	535
Onwards	418	662
Less: unearned interest	(1,058)	(1,740)
Total lease Liability	**9,127**	**12,522**

Amounts recognised in profit and loss	2021	2020
Depreciation expense	(3,647)	(2,589)
Interest expense	(765)	(691)
Foreign exchange gain / (loss)	486	(577)
Expenses related to short-term leases and low-cost items	(166)	(1,243)
Gain on lease cancellations	9	5
Total	**(4,083)**	**(5,095)**

16. INTANGIBLE ASSETS

		Intangible assets
Cost	**at 1 January 2020**	**4,401**
	Additions	544
	at December 31, 2020	**4,945**
	Additions	2,989
	at December 31, 2021	**7,934**
Accumulated amortization	**at January 1, 2020**	**(1,837)**
	Amortization for the year	(497)
	at December 31, 2020	**(2,334)**
	Amortization for the year	(1,106)
	at December 31, 2021	**(3,440)**
Carrying amounts	**At December 31, 2020**	**2,611**
	At December 31, 2021	**4,494**

Intangible assets include software and licenses, including work-in-process internally developed software in an amount of GEL 260 thousand.

(in thousands of Georgian Lari)

17. OTHER ASSETS

	December 31, 2021	December 31, 2020
Other receivables	2,220	2,663
Less: expected credit losses	(164)	(121)
Total other financial assets	**2,056**	**2,542**
Prepayments	1,085	962
Repossessed assets	1,305	924
Taxes other than income	-	235
Inventory	135	50
Total other non-financial assets	**2,525**	**2,171**
Total other assets	**4,581**	**4,713**

Other receivables include money transfer receivables from Paybox Machine Operators that are settled shortly after the reporting date.

18. BORROWED FUNDS

This note provides information about the contractual terms of interest-bearing loans and borrowings which are measured at amortized cost. For more information about exposure to interest rate, foreign currency and liquidity risks, see Note 26.

	December 31, 2021	December 31, 2020
Loans from financial institutions	298,847	273,397
Subordinated debt	15,558	6,571
Total borrowed funds	**314,405**	**279,968**

	December 31, 2021	December 31, 2020
Principal	309,715	275,893
Interest accrued	4,690	4,075
Total borrowed funds	**314,405**	**279,968**

The Group's borrowed funds short-term and long-term classification is as following:

	December 31, 2021	December 31, 2020
Non-current liabilities Borrowed funds	178,693	-
Current liabilities Borrowed funds	135,712	279,968
Total borrowed funds	**314,405**	**279,968**

(in thousands of Georgian Lari)

SUBORDINATED DEBT

As at December 31, 2021 and December 31, 2020, subordinated debt is unsecured loan received from an international financial organization, Bank Im Bistum Essen EG, maturing in 2025 amounting to GEL 6,228 thousand and GEL 6,571 thousand, with annual interest rate of 9%.

As at December 31, 2021 subordinated debt also is unsecured loan received from an international financial organization, Covid-19 Emerging and Frontier Markets MSME Support Fund SCSp SICAV-RAIF, maturing in 2027 amounting to GEL 9,339 thousand, with annual interest rate of 7.8%.

In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Group.

TERMS AND DEBT REPAYMENTS

Terms and conditions of outstanding borrowed funds are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2021 Carrying Amount	December 31, 2020 Carrying Amount
Unsecured loans from financial institutions	USD	2.48% - 6.77%	2021 – 2024	160,796	152,450
Unsecured loans from financial institutions	GEL	11.50% -15.88%	2021 – 2027	138,051	120,947
Unsecured subordinated debt	USD	8.40%	2025 – 2027	15,558	6,571
Total borrowed funds				**314,405**	**279,968**

RECONCILIATION OF CHANGES ARISING FROM FINANCING ACTIVITIES

	January 1, 2021	Receipt of loans during the year 2021	Repayment of loans during the year 2021	Interest accrual during the year 2021	Interest paid during the year 2021	Foreign exchange loss during the year 2021	December 31, 2021
Borrowed funds	279,968	185,290	(143,177)	30,822	(30,207)	(8,291)	**314,405**

	January 1, 2020	Receipt of loans during the year 2020	Repayment of loans during the year 2020	Interest accrual during the year 2020	Interest paid during the year 2020	Foreign exchange loss during the year 2020	December 31, 2020
Borrowed funds	253,983	122,701	(120,648)	26,990	(26,294)	23,236	**279,968**

(in thousands of Georgian Lari)

UNUSED CREDIT LINE FACILITIES

In February 2020 the Group signed a credit line agreement with JSC TBC Bank with an available facility of GEL 10,000 thousand expiring in 2021.

In December 2020 the Group signed a credit line agreement with JSC Bank of Georgia with an available facility of GEL 5,000 thousand expiring in 2021.

In March 2021 the Group signed a credit line agreement with JSC Bank of Georgia with an available facility of GEL 9,900 thousand expiring in 2022.

In March 2021 the Group signed a credit line agreement with JSC Basis Bank with an available facility of GEL 5,000 thousand expiring in 2022.

In December 2021 the Group signed a credit line agreement with JSC TBC Bank with an available facility of GEL 10,000 thousand expiring in 2022.

COVENANT REQUIREMENTS

The Group is obligated to comply with financial covenants in relation to borrowed funds disclosed above. These covenants include stipulated ratios, as well as leverage, liquidity, profitability and risk coverage ratios.

There were several breaches of covenants during 2021. The Group notified all counterparties and obtained the waiver letters prior to year-end 2021. As a result, the respective liabilities are not immediately repayable.

19. DEBT SECURITIES ISSUED

This note provides information about the contractual terms of debt securities issued which are measured at amortized cost. For more information about exposure to interest rate, foreign currency and liquidity risks, see Note 26.

	December 31, 2021	December 31, 2020
Principal	-	12,407
Interest accrued	-	318
Total debt securities issued	**-**	**12,725**

The Group's debt securities issued short-term and long-term classification is as following:

	December 31, 2021	December 31, 2020
Non-current liabilities		
Debt securities issued	-	-
Current liabilities		
Debt securities issued	-	12,725
Total debt securities issued	**-**	**12,725**

CORPORATE BOND

Debt securities issued includes Corporate Bond. As at December 31, 2020 debt securities include corporate bond issued by the Group in March, 2019 with a face value of GEL 12.5 million maturing in February, 2021. The bond bears a contractual rate of interest of 4% over the National Bank of Georgia's refinancing rate per annum on the notional amount. In 2021, on the contractual maturity date, the bond was repaid in full.

(in thousands of Georgian Lari)

TERMS AND DEBT REPAYMENT

Terms and conditions of outstanding debt securities are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2021 Carrying Amount	December 31, 2020 Carrying Amount
Debt securities issued	**GEL**	**4%+NBG refinancing rate**	**2021**	**-**	**12,725**
Total debt securities issued				**-**	**12,725**

RECONCILIATION OF CHANGES ARISING FROM FINANCING ACTIVITIES:

	January 1, 2021	Receipt of debt securities during the year 2021	Repayment of debt securities during the year 2021	Interest accrual during the year 2021	Interest paid during the year 2021	Foreign exchange gain during the year 2021	December 31, 2021
Debt securities issued	12,725	-	(12,407)	157	(475)	-	**-**

	January 1, 2020	Receipt of debt securities during the year 2020	Repayment of debt securities during the year 2020	Interest accrual during the year 2020	Interest paid during the year 2020	Foreign exchange gain during the year 2020	December 31, 2020
Debt securities issued	12,667	-	-	1,555	(1,497)	-	**12,725**

20. OTHER LIABILITIES

	December 31, 2021	December 31, 2020
Other payables	9,068	1,062
Accruals for employee compensation	924	778
Total other financial liabilities	**9,992**	**1,840**
Taxes other than on income	6	0
Other non-financial liabilities	146	9
Total other non-financial liabilities	**152**	**9**
Total other liabilities	**10,144**	**1,849**

(in thousands of Georgian Lari)

21. SHARE CAPITAL AND RESERVES

SHARE CAPITAL

Share capital as at December 31, 2021:

Shareholder	Number of shares	Common/ non-redeemable preference	Share %	Voting rights	Capital GEL
AGRIF COÖPERATIEF U.A.	1,186,157	Common	38.75%	38.75%	1,185
DWM Funds S.C.A-SICAV SIF	378,719	Common	12.37%	12.37%	379
Fund Crystal	2,682	Common	0.09%	0.09%	3
Individual shareholders	1,493,624	Common	48.79%	48.79%	1,494
	3,061,182		**100.00%**	**100.00%**	**3,061**
DWM Funds S.C.A-SICAV SIF	304,613	Preferred	53.12%	0.00%	305
AGRIF COÖPERATIEF U.A.	268,781	Preferred	46.88%	0.00%	269
	573,394		**100.00%**	**0.00%**	**574**

Share capital as at December 31, 2020:

Shareholder	Number of shares	Common/ non-redeemable preference	Share %	Voting rights	Capital GEL
Fund Crystal	1,186,157	Common	38.75%	38.75%	1,185
AGRIF COÖPERATIEF U.A.	378,719	Common	12.37%	12.37%	379
DWM Funds S.C.A-SICAV SIF	32,682	Common	1.07%	1.07%	33
Individual shareholders	1,463,624	Common	47.81%	47.81%	1,464
	3,061,182		**100.00%**	**100.00%**	**3,061**
DWM Funds S.C.A-SICAV SIF	304,613	Preferred	53.12%	0.00%	305
AGRIF COÖPERATIEF U.A.	268,781	Preferred	46.88%	0.00%	269
	573,394		**100.00%**	**0.00%**	**574**

All ordinary shares have a nominal value of GEL 1 and are fully paid.

All ordinary shares rank equally with regard to the Group's residual assets.

SHARE PREMIUM

Share premium represents the amount received for a share in excess of its registered value. Hence, can be generated via the same sources as the share capital: 1) actual issuance of shares, and 2) within the MIP.

Share premium was GEL 22,110 thousand for the years ended December 31, 2021 and December 31, 2020.

DIVIDENDS

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Group.

The holders of preferred stock are entitled to receive dividends at annual interest rate of 10%. According to Georgian legislation any promise of dividends is void and based on profit for the year and management decision.

Based on shareholders' decisions, dividends of GEL 996 thousand and GEL 999 thousand were declared for the years 2021 and 2020, respectively.

In accordance with Georgian legislation the Group's distributable reserves are limited to the balance of retained earnings as recorded in the Group's consolidated financial statements prepared in accordance with IFRS.

22. CONTINGENCIES

LITIGATION

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

TAXATION CONTINGENCIES

Commercial legislation of Georgia, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

Georgian transfer pricing legislation was amended starting from January 1, 2014 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. The impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally, such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

OPERATING ENVIRONMENT

Emerging markets such as Georgia are subject to different risks than more developed markets; these include economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to evolve rapidly with tax and regulatory frameworks subject to varying interpretations. The future direction of Georgia's economy is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

For the last few years Georgia has experienced a number of legislative changes, which have been largely related to Georgia's accession plan to the European Union. Whilst the legislative changes implemented during the years paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

(in thousands of Georgian Lari)

Georgia's financial sector continued to grow in 2021, compared to 2020, the sector was well prepared for complications caused by pandemic. Financial sector and business community have endured tighter operating environment and reduced business activity due to pandemic - the pressures that led to the increased risks in 2020.

In 2021, after most of the restrictions on business were lifted, the economy started recovery at a rapid pace. The Government together with the National Bank of Georgia (NBG) provided the necessary assistance to the business and financial sector. The government submitted numerous programs that provide tax breaks, loan restructuring programs, interest subsidies. The incentives issued by the NBG were targeted to ensure solvency opportunities for the sector by temporarily mitigating capital and liquidity requirements.

The Group is constantly assessing the impact of the COVID-19 Global Pandemic on its consolidated and separate financial statements. Based on the specifics of the Group's activities, its operations and demand on its services have not been affected significantly in 2021.

23. RELATED PARTY TRANSACTIONS

CONTROL RELATIONSHIPS

As at December 31, 2021 the Group's major shareholders are AGRIF COÖPERATIEF U.A. and DWM Funds S.C.A-SICAV SIF with 38.75% and 12.37% shareholding, respectively (See Note 1).

TRANSACTIONS WITH MEMBERS OF THE SUPERVISORY AND EXECUTIVE BOARDS

Total remuneration and management consulting fees included in personnel expenses for the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Salaries and bonuses	1,166	1,128
Consulting fees	512	516
	1,678	**1,644**

OTHER RELATED PARTY TRANSACTIONS

	Fee and commission expenses 2021	Fee and commission expenses 2020	Other liabilities as of December 31, 2021	Other liabilities as of December 31, 2020
Other				
JSC Mobile Finance Services - Georgia*	298	521	1	426
	298	**521**	**1**	**426**

These expenses are of 2 types by nature:

1. Cash withdrawal fees, that essentially are the customers' expense, but the Group covers for the ease of the process and avoidance of certain technical difficulties – GEL 298 thousand (2020: GEL 371 thousand)

2. Software development and service integration fees – GEL 0 thousand (2020: GEL 150 thousand)

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

FAIR VALUE HIERARCHY

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

For financial assets and liabilities that have a short-term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and current accounts without a maturity.

Cash and cash equivalents – Cash and cash equivalents are carried at amortized cost which approximates their current fair value.

Other financial assets and liabilities – Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.

Loans to customers – The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates of new instruments with similar credit risk and remaining maturity. Discount rates depend on currency, maturity of the instrument and credit risk of the counterparty.

Borrowed funds and debt securities issued – The fair values of subordinated debt and debt securities issued is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using current interest rates of new instruments. For the borrowings received at variable rates management believes that carrying rate may be assumed to be market interest rate.

(in thousands of Georgian Lari)

Lease liability – The fair value of lease liability is based on estimated future cash outflows discounted at current interest rate. Discount rate depends on currency and maturity of the instruments. The fair value of lease liability approximates its cost.

The following table shows the carrying amount and fair value of financial assets and financial liabilities recognised in the consolidated financial statements.

	Fair value hierarchy	December 31, 2021		December 31, 2020	
		Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	Level 1	19,127	19,127	17,884	17,884
Loans to customers	Level 3	347,941	352,884	315,880	320,963
Net investments in leases	Level 3	5,662	5,662	2,246	2,246
Other financial assets	Level 3	2,056	2,056	2,542	2,542
Borrowed funds	Level 3	314,405	314,166	279,968	279,206
Debt securities issued	Level 3	-	-	12,725	12,725
Lease liability	Level 3	9,127	9,127	12,522	12,522
Other financial liabilities	Level 3	9,992	9,992	1,840	1,840

FAIR VALUE OF THE GROUP'S FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

Derivative financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Derivative financial instruments	Fair value as at December 31, 2021	Fair value as at December 31, 2020	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss	103	2,509	Level 2	Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates.	N/A	N/A
Financial liabilities at fair value through profit or loss	188	-	Level 2			

The Group uses widely recognised valuation models for determining the fair value of derivative financial instruments, like foreign exchange forward contracts and currency swaps that use only observable market data and require less management judgment and estimation.

(in thousands of Georgian Lari)

25. CAPITAL MANAGEMENT

The Group's objectives when maintaining capital are:

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

The Group sets the amount of capital it requires in proportion to risk. The Group 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 Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Group is in compliance with minimum statutory capital requirements – the minimum cash contribution in the equity should not be less than GEL 1,000 thousand (2018: GEL 500 thousand).

Starting from 1 September 2018, the Group 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.

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

- September 1, 2018 – December 31 2018: at least 16%
- January 1, 2019 – June 30 2019: 16-18%
- July 1, 2019 onwards – at least 18%

Considering effects of COVID-19 on the finance sector, the NBG reduced its CAR requirement on a case-by-case basis. The Group has been in compliance with the requirements throughout the whole period, as well as as at the reporting date.

The below table discloses the compliance with NBG CAR ratio as at December 31, 2021 and December 31, 2020:

	2021	2020
Share capital	3,635	3,635
Share premium	22,110	22,110
Retained earnings	34,450	32,266
Eligible subordinated debt	13,067	5,257
Regulatory capital before reductions	**73,262**	**63,268**
Less intangible assets	(4,494)	(2,611)
Regulatory capital	**68,768**	**60,657**

(in thousands of Georgian Lari)

	2021	**2020**
Total assets before reductions	396,179	366,074
Less intangible assets	(4,494)	(2,611)
Total assets after reductions	**391,685**	**363,463**

	December 31, 2021	**December 31, 2020**
Capital adequacy ratio	17.56%	16.69%

The Group also monitors its capital adequacy levels to comply with debt covenants, calculated in accordance with the lenders requirements. See Note 18 for the details of compliance with covenants.

26. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the business and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk and liquidity risk.

The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Supervisory Board, together with its committees, has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Group's Executive Board Risk Committee and the Finance Department are responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Executive Board.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organization. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group has policies and procedures for the management of credit exposures, including the establishment of Credit Committees, the analytical bodies responsible for analysing the information in the loan applications, assessing and reducing the credit risks. The credit policy (in the form of a Credit Manual) is reviewed and approved by the Supervisory Board.

The credit policy establishes:

- Procedures for reviewing and approving loan credit applications;
- Methodology for the credit assessment of borrowers;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

The Credit Committee is authorized to make the final decision about financing or rejecting the loan applications. The loans presented to the Committee for approval are based on limits established by the credit policy.

Accuracy and correctness of information presented to the Credit Committee is the responsibility of the credit officer, who fills in the initial application after the due scrutiny of the applicant's business and its credit risks through the use of scoring models and application data verification procedures). Eventually the Credit Committee members assess the application against the established criteria (applicant's credit history, financial condition, competitive ability, etc.).

Assessment of the applicant's creditworthiness through monitoring of its business allows timely avoidance the risk of financial loss. Monitoring is performed by credit officers who report the results to the management. Regular monitoring of loans is also performed by the Monitoring Department. For timely response to potential risks, monitoring results are presented to the top management on monthly basis. The monitoring system helps to manage credit risks and to minimize them in a timely manner.

Exposure to credit risk is also managed, in part, by obtaining collateral and personal guarantees.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position.

As at December 31, 2021 and 2020, the Group has no debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

Portfolio segmentation

For the purpose of portfolio segmentation, according to the homogeneity of the risk of portfolio grouping, the portfolio is divided in the groups according to product types: Micro Business, SME, Agricultural, Housing, Consumer, Installment and Pawnshop loans. Vintage analysis and default rate analysis are performed to further ensure the homogeneity of identified segments. PD is calculated separately for each of the above-mentioned groups.

The client exposure is further broken down into collateralized and non-collateralized loans, as the two display different characteristics and bear different risks.

Significant increase in credit risk

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

The Group 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.

Definition of default

The Group 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 their control
- Pawnshop default point is >30 days in arrears

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

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

Incorporation of forward-looking information

The Group 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 (expected credit loss).

The Group has identified and documented the key drivers of credit risk and credit losses for the portfolio using an analysis of historical data, has assessed impact of macro-economic variables on probability of default and recovery rate. The following macro-economic variables were involved in the analysis:
- Real growth rate of GDP of Georgia;
- Inflation rate;
- Monetary policy interest rate;
- Nominal effective exchange rate.

(in thousands of Georgian Lari)

The table below summarizes the principal macroeconomic indicators included in the economic scenarios used at December 31, 2021 for the years 2022 to 2024, for Georgia:

	2022	2023	2024
GDP Growth			
Base scenario	5.0	4.0	4.5
Upside scenario	6.0	5.0	4.5
Downside scenario	2.0	4.0	5.0
Inflation rate			
Base scenario	7.0	2.5	3.0
Upside scenario	5.5	3.0	3.0
Downside scenario	8.0	4.0	3.0
Monetary policy interest rate			
Base scenario	8.5	7.0	7.0
Upside scenario	8.0	7.0	6.5
Downside scenario	11.0	9.0	7.0
Nominal effective exchange rate			
Base scenario	252.5	252.5	252.5
Upside scenario	258.8	262.7	266.6
Downside scenario	237.4	240.9	245.7

Measurement of ECL

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

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

Probability of default (PD)

Cox model is a well-known statistical concept widely used in survival analysis, which is the area of statistics that deals with lifetime data. The variable of interest is the time to the occurrence of an event. It is commonly used in medical drug studies and reliability studies in engineering. In the case of credit risk, the event in question is default.

As mentioned in the ECL paragraph, ECL calculation utilizes PD (Marginal Probability of Default) through CPD (cumulative Probability of Default). It occurs that both parameters can be easily obtained from hazard functions calculated for each exposure.

As a result of the application of survival models, there is a transition from old model based only on delinquency migration to individual assessment in new model. In addition to applicative factors, behavioral factors are added to the new model, which demonstrates the potential for the development of this approach in assessing the probability of default.

Full procedure of PD model estimation consisted of five main steps:

- Data preparation and selection of candidates for explanatory variables.
- Single analysis.
- multi-factor analysis.
- Estimation of covariates in Cox proportional hazard model.
- Quality and back testing

(in thousands of Georgian Lari)

Main assumptions and segmentation

For the modelling purposes the following assumptions were taken:

- Only first default for each exposure was consider as valid (i.e. remaining data after default entry was cut off)
- All facilities which are in default at their first observation date were excluded from the sample
- Default was defined by 2 criteria: days past due and written off status
- Each occurrence of a loan within a timeline was considered as a separate observation

Modeling was based on a product group segmentation that separates loans looking at common characteristics.

As at December 31, 2021, 10% increase/(decrease) in average PD per each segment results in ECL increase/(decrease) by 5.2% that represents GEL 657/(657) thousand.

As at December 31, 2020, 10% increase/(decrease) in average PD per each segment results in ECL increase/(decrease) by 5.1% that represents GEL 690/(690) thousand.

Loss given default (LGD)

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

As at December 31, 2021, 10% increase/(decrease) in average LGD per each segment results in ECL increase/(decrease) by 10.0% that represents GEL 1,255/(1,255) thousand.

As at December 31, 2020, 10% increase/(decrease) in average LGD per each segment results in ECL increase/(decrease) by 9.1% that represents GEL 1,227/(1,227) thousand.

Exposure at default (EAD)

EAD represents the expected exposure in the event of default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

Credit quality of loans to customers

The following tables provide information on the credit quality of loans to customers as at December 31, 2021:

	Gross loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans %
Analysis by product group:							
SME loans							
Not overdue	52,470	(327)	(972)	(1,353)	(2,652)	49,818	5%
1 to 30 days overdue	356	-	(14)	(136)	(150)	206	42%
31 to 60 days overdue	134	-	(8)	(28)	(36)	98	27%
61 to 90 days overdue	55	-	-	(32)	(32)	23	58%
91 to 180 days overdue	409	-	-	(243)	(243)	166	59%
Over 180 days overdue	-	-	-	-	-	-	0%
Total SME loans	**53,424**	**(327)**	**(994)**	**(1,792)**	**(3,113)**	**50,311**	**6%**

(in thousands of Georgian Lari)

	Gross loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans %
Housing loans							
Not overdue	28,079	(59)	(95)	(77)	(231)	27,848	1%
1 to 30 days overdue	37	-	-	(10)	(10)	27	27%
31 to 60 days overdue	49	-	(3)	-	(3)	46	6%
61 to 90 days overdue	53	-	(3)	(18)	(21)	32	40%
91 to 180 days overdue	5	-	-	(3)	(3)	2	60%
Over 180 days overdue	-	-	-	-	-	-	0%
Total housing loans	**28,223**	**(59)**	**(101)**	**(108)**	**(268)**	**27,955**	**1%**
Agricultural loans							
Not overdue	65,278	(1,054)	(682)	(1,389)	(3,125)	62,153	5%
1 to 30 days overdue	555	(3)	(62)	(103)	(168)	387	30%
31 to 60 days overdue	567	-	(81)	(197)	(278)	289	49%
61 to 90 days overdue	651	-	(158)	(227)	(385)	266	59%
91 to 180 days overdue	1,001	-	(15)	(667)	(682)	319	68%
Over 180 days overdue	-	-	-	-	-	-	0%
Total agricultural loans	**68,052**	**(1,057)**	**(998)**	**(2,583)**	**(4,638)**	**63,414**	**7%**
Micro business loans							
Not overdue	69,558	(901)	(337)	(734)	(1,972)	67,586	3%
1 to 30 days overdue	565	(2)	(30)	(66)	(98)	467	17%
31 to 60 days overdue	369	-	(70)	(41)	(111)	258	30%
61 to 90 days overdue	308	-	(70)	(79)	(149)	159	48%
91 to 180 days overdue	1,069	-	(20)	(688)	(708)	361	66%
Over 180 days overdue	-	-	-	-	-	-	0%
Total micro business loans	**71,869**	**(903)**	**(527)**	**(1,608)**	**(3,038)**	**68,831**	**4%**
Fast instalment loans							
Not overdue	47,262	(292)	(24)	(55)	(371)	46,891	1%
1 to 30 days overdue	385	(1)	(11)	(6)	(18)	367	5%
31 to 60 days overdue	254	-	(30)	(10)	(40)	214	16%
61 to 90 days overdue	261	-	(60)	(14)	(74)	187	28%
91 to 180 days overdue	717	-	(51)	(402)	(453)	264	63%
Over 180 days overdue	-	-	-	-	-	-	0%
Total fast instalment loans	**48,879**	**(293)**	**(176)**	**(487)**	**(956)**	**47,923**	**2%**

(in thousands of Georgian Lari)

	Gross loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans %
Pawn shop loans							
Not overdue	36,304	-	(2)	(60)	(62)	36,242	0%
1 to 30 days overdue	647	-	-	(20)	(20)	627	3%
31 to 60 days overdue	50	-	-	(10)	(10)	40	20%
61 to 90 days overdue	18	-	-	(3)	(3)	15	17%
91 to 180 days overdue	6	-	-	(1)	(1)	5	17%
Over 180 days overdue	-	-	-	-	-	-	0%
Total pawn shop loans	**37,025**	**-**	**(2)**	**(94)**	**(96)**	**36,929**	**0%**
Consumer loans							
Not overdue	52,802	(450)	(267)	(408)	(1,125)	51,677	2%
1 to 30 days overdue	487	(1)	(27)	(62)	(90)	397	18%
31 to 60 days overdue	193	-	(55)	(12)	(67)	126	35%
61 to 90 days overdue	299	-	(133)	(28)	(161)	138	54%
91 to 180 days overdue	688	-	(26)	(422)	(448)	240	65%
Over 180 days overdue	-	-	-	-	-	-	0%
Total consumer loans	**54,469**	**(451)**	**(508)**	**(932)**	**(1,891)**	**52,578**	**3%**
Total loans to customers	**361,941**	**(3,090)**	**(3,306)**	**(7,604)**	**(14,000)**	**347,941**	**4%**

The following tables provide information on the credit quality of loans to customers as at December 31, 2020:

	Gross loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans %
Analysis by product group:							
SME loans							
Not overdue	65,006	(640)	(826)	(791)	(2,257)	62,749	3%
1 to 30 days overdue	547	-	(36)	(99)	(135)	412	25%
31 to 60 days overdue	624	-	(114)	(84)	(198)	426	32%
61 to 90 days overdue	360	-	(56)	(106)	(162)	198	45%
91 to 180 days overdue	863	-	-	(391)	(391)	472	46%
Over 180 days overdue	-	-	-	-	-	-	0%
Total SME loans	**67,400**	**(640)**	**(1,032)**	**(1,471)**	**(3,143)**	**64,257**	**5%**

(in thousands of Georgian Lari)

	Gross loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans %
Housing loans							
Not overdue	52,097	(351)	(239)	(330)	(920)	51,177	2%
1 to 30 days overdue	212	(1)	(21)	(13)	(35)	177	17%
31 to 60 days overdue	247	-	(14)	(86)	(100)	147	40%
61 to 90 days overdue	197	-	(18)	(47)	(65)	132	33%
91 to 180 days overdue	403	-	-	(246)	(246)	157	61%
Over 180 days overdue	-	-	-	-	-	-	0%
Total housing loans	**53,156**	**(352)**	**(292)**	**(722)**	**(1,366)**	**51,790**	**3%**
Agricultural loans							
Not overdue	52,488	(869)	(595)	(1,006)	(2,470)	50,018	5%
1 to 30 days overdue	482	-	(62)	(45)	(107)	375	22%
31 to 60 days overdue	693	-	(103)	(177)	(280)	413	40%
61 to 90 days overdue	568	-	(173)	(108)	(281)	287	49%
91 to 180 days overdue	872	-	-	(623)	(623)	249	71%
Over 180 days overdue	-	-	-	-	-	-	0%
Total agricultural loans	**55,103**	**(869)**	**(933)**	**(1,959)**	**(3,761)**	**51,342**	**7%**
Micro business loans							
Not overdue	48,319	(839)	(364)	(626)	(1,829)	46,490	4%
1 to 30 days overdue	576	(2)	(37)	(92)	(131)	445	23%
31 to 60 days overdue	386	-	(56)	(52)	(108)	278	28%
61 to 90 days overdue	249	-	(58)	(47)	(105)	144	42%
91 to 180 days overdue	691	-	-	(438)	(438)	253	63%
Over 180 days overdue	-	-	-	-	-	-	0%
Total micro business loans	**50,221**	**(841)**	**(515)**	**(1,255)**	**(2,611)**	**47,610**	**5%**
Fast instalment loans							
Not overdue	41,294	(550)	(82)	(18)	(650)	40,644	2%
1 to 30 days overdue	383	(1)	(28)	(4)	(33)	350	9%
31 to 60 days overdue	224	-	(46)	(5)	(51)	173	23%
61 to 90 days overdue	185	-	(73)	(15)	(88)	97	48%
91 to 180 days overdue	654	-	-	(537)	(537)	117	82%
Over 180 days overdue	-	-	-	-	-	-	0%
Total fast instalment loans	**42,740**	**(551)**		**(579)**	**(1,359)**	**41,381**	**3%**

(in thousands of Georgian Lari)

	Gross loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	Total ECL	Net loans	ECL allowance to gross loans %
Pawn shop loans							
Not overdue	29,388	-	(5)	-	(5)	29,383	0%
1 to 30 days overdue	482	-	(1)	-	(1)	481	0%
31 to 60 days overdue	38	-	-	(8)	(8)	30	21%
61 to 90 days overdue	7	-	-	(1)	(1)	6	14%
91 to 180 days overdue	24	-	-	(5)	(5)	19	21%
Over 180 days overdue	-	-	-	-	-	-	0%
Total pawn shop loans	**29,939**	**-**	**(6)**	**(14)**	**(20)**	**29,919**	**0%**
Consumer loans							
Not overdue	29,637	(383)	(173)	(175)	(731)	28,906	2%
1 to 30 days overdue	403	-	(23)	(55)	(78)	325	19%
31 to 60 days overdue	191	-	(43)	(8)	(51)	140	27%
61 to 90 days overdue	132	-	(49)	(19)	(68)	64	52%
91 to 180 days overdue	404	-	-	(258)	(258)	146	64%
Over 180 days overdue	-	-	-	-	-	-	0%
Total consumer loans	**30,767**	**(383)**	**(288)**	**(515)**	**(1,186)**	**29,581**	**4%**
Total loans to customers	**329,326**	**(3,636)**	**(3,295)**	**(6,515)**	**(13,446)**	**315,880**	**4%**

During the years ended December 31, 2021 and 2020, the Group modified the contractual cash flows on certain loans to customers. All such loans were transferred to at least Stage 2 with a loss allowance measured at an amount equal lifetime expected credit losses. Therefore, there are no loans with modified contractual cash flows transferred to Stage 1 from Stage 2 or Stage 3.

In additional, for the year ended December 31, 2020 the Group determined and recognized the net loan modification loss of GEL 2,601, which mostly was the result of 3-month moratorium (payment holidays) on the major part of its loan portfolio, announced so as to aid the customers amid COVID-19 crisis.

Analysis of collateral and other credit enhancements

The following table provides the analysis of the loan portfolio, net of impairment:

	December 31, 2021	% of loan portfolio	December 31, 2020	% of loan portfolio
Loans with no collateral	261,339	75%	185,013	59%
Loans with collateral	86,602	25%	130,867	41%
Total	**347,941**	**100%**	**315,880**	**100%**

(in thousands of Georgian Lari)

	December 31, 2021			
Type of collateral	**Gross carrying amount**	**ECL**	**Carrying amount**	**Collateral Fair Value**
Real estate	77,515	(4,519)	72,996	230,375
Precious metals	8,405	(19)	8,386	36,415
Movable property	5,512	(292)	5,220	14,433
Non-collateralized	270,509	(9,170)	261,339	-
Total	**361,941**	**(14,000)**	**347,941**	**281,223**

	December 31, 2020			
Type of collateral	**Gross carrying amount**	**ECL**	**Carrying amount**	**Collateral Fair Value**
Real estate	99,845	(4,727)	95,118	278,998
Precious metals	30,059	(20)	30,039	52,475
Movable property	5,960	(250)	5,710	14,153
Non-collateralized	193,462	(8,449)	185,013	-
Total	**329,326**	**(13,446)**	**315,880**	**345,626**

Loans with collateral are mainly secured by real estate, movable property and precious metals. In addition, the majority of the loans are collateralized by sureties. Secured loans are mainly included in the pawn shop, service, trade and agricultural loan categories.

Management estimates that the fair value of collateral estimated at the inception of the loans is at least equal to the carrying amounts of corresponding secured loans as at December 31, 2021 and 2020, excluding the effect of overcollateralization. Due to the low loan-to-value ratio, the management does not expect any possible negative movements in market prices to have a significant impact on recoverability of the loans.

Sureties received from individuals are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral.
Repossessed assets are presented in other assets. Refer to Note 17.

Loan maturities
The maturity of the loan portfolio is presented below, which shows the remaining period from the reporting date to the contractual maturity of the loans.

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk for the Group arises from open positions in interest rates, which are exposed to general and specific market movements and changes in the level of foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO.

(in thousands of Georgian Lari)

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions. These are monitored on a regular basis and reviewed by the Executive Board and approved by the Supervisory Board.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position is presented by the lower of interest rate receipt date or maturity date of financial instruments:

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
December 31, 2021							
ASSETS							
Cash and cash equivalents	3,379	-	-	-	-	15,748	19,127
Financial asset at fair value through profit or loss	103	-	-	-	-	-	130
Loans to customers	111,053	37,998	68,090	128,124	2,676	-	347,941
Net investments in leases	63	82	254	5,263	-	-	5,662
Other financial assets	-	-	-	-	-	2,056	2,056
	114,598	**38,080**	**68,344**	**133,387**	**2,676**	**17,804**	**374,889**
LIABILITIES							
Financial liability at fair value through profit or loss	188	-	-	-	-	-	188
Borrowed funds	19,142	44,685	71,885	172,348	6,345	-	314,405
Lease liability	933	949	1,778	5,079	388	-	9,127
Dividends payable	-	-	996	-	-	-	996
Other financial liabilities	-	-	-	-	-	9,992	9,992
	20,263	**45,634**	**74,659**	**177,427**	**6,733**	**9,992**	**334,708**
Interest sensitivity gap	**94,335**	**(7,554)**	**(6,315)**	**(44,040)**	**(4,057)**	**7,812**	
Cumulative interest sensitivity gap	**94,335**	**86,781**	**80,466**	**36,426**	**32,369**	**40,181**	

(in thousands of Georgian Lari)

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
December 31, 2020							
ASSETS							
Cash and cash equivalents	4,017	-	-	-	-	13,867	17,884
Financial asset at fair value through profit or loss	-	-	-	-	-	2,509	2,509
Loans to customers	57,304	53,873	65,274	135,051	4,378	-	315,880
Net investments in leases	18	10	152	2,066	-	-	2,246
Other financial assets	-	-	-	-	-	2,542	2,542
	61,339	**53,883**	**65,426**	**137,117**	**4,378**	**18,918**	**341,061**
LIABILITIES							
Borrowed funds	273,240	6,604	-	-	-	124	279,968
Debt securities issued	12,725	-	-	-	-	-	12,725
Lease liability	875	896	1,860	8,293	598	-	12,522
Dividends payable	-	-	999	-	-	-	999
Other financial liabilities	-	-	-	-	-	1,840	1,840
	286,840	**7,500**	**2,859**	**8,293**	**598**	**1,964**	**308,054**
Interest sensitivity gap	**(225,501)**	**46,383**	**62,567**	**128,824**	**3,780**	**16,954**	
Cumulative interest sensitivity gap	**(225,501)**	**(179,118)**	**(116,551)**	**12,273**	**16,053**	**33,007**	

Average effective interest rates
The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2021 and 2020. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2021			2020		
	Average effective interest rate, %			Average effective interest rate, %		
	GEL	USD	EUR	GEL	USD	EUR
Interest bearing assets						
Cash and cash equivalents	5.69%	-	-	6.59%	1.00%	-
Loans to customers	34.69%	18.53%	-	31.52%	20.36%	-
Net investments in leases	36.43%	-	-	35.50%	-	-
Interest bearing liabilities						
Borrowed funds	14.77%	6.02%	-	12.46%	6.13%	-
Debt securities issued	-	-	-	12.55%	-	-

(in thousands of Georgian Lari)

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2021 and 2020, is as follows:

	2021	**2020**
100 bp parallel fall	(648)	1,298
100 bp parallel rise	648	(1,298)

Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk through use of back to back loans which are classified as derivatives (see Note 11), such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at December 31, 2021:

	EUR	**USD**	**Other**	**Total**
ASSETS				
Cash and cash equivalents	1,631	3,168	693	5,492
Loans to customers	-	787	-	787
Other financial assets	2	212	92	306
Total assets	**1,633**	**4,167**	**785**	**6,585**
LIABILITIES				
Borrowed funds	-	176,354	-	176,354
Lease liability	-	7,566	-	7,566
Other financial liabilities	22	16	-	38
Total liabilities	**22**	**183,936**	**-**	**183,958**
Net position	**1,611**	**(179,769)**	**785**	**(177,373)**
The effect of derivatives held for risk management	**-**	**180,854**	**(2,026)**	**178,828**
Net position after derivatives held for risk management purposes	**1,611**	**1,085**	**(1,241)**	**1,455**

(in thousands of Georgian Lari)

The following table shows the foreign currency exposure structure of financial assets and liabilities as at December 31, 2020:

	EUR	USD	Other	Total
ASSETS				
Cash and cash equivalents	1,838	2,959	790	5,587
Loans to customers	-	2,075	-	2,075
Other financial assets	10	137	33	180
Total assets	**1,848**	**5,171**	**823**	**7,842**
LIABILITIES				
Borrowed funds	-	159,021	-	159,021
Lease liability	-	10,757	-	10,757
Other financial liabilities	3	1	-	4
Total liabilities	**3**	**169,779**	**-**	**169,782**
Net position	**1,845**	**(164,608)**	**823**	**(161,940)**
The effect of derivatives held for risk management	**12,070**	**141,032**	**5,866**	**158,968**
Net position after derivatives held for risk management purposes	**13,915**	**(23,576)**	**6,689**	**(2,972)**

The following significant exchange rates were applied during the year:

in GEL	**Average rate**		**Reporting date spot rate**	
	2021	**2020**	**2021**	**2020**
USD 1	3.2284	3.1097	3.0976	3.2766
EUR 1	3.8299	3.5519	3.5040	4.0233

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2021 and 2020, would have increased (decreased) profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular - interest rates, remain constant.

	2021	**2020**
10% appreciation of USD against GEL	92	(2,004)
10% appreciation of EUR against GEL	137	1,183

A strengthening of the GEL against the above currencies at December 31, 2021 and 2020 would have had the equal opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

(in thousands of Georgian Lari)

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Executive and Supervisory Boards.

The Group seeks to actively support a diversified and stable funding base comprising long- term and short-term loans from other banks and other financial institutions, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- Projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto;
- Maintaining a diverse range of funding sources;
- Managing the concentration and profile of debts;
- Maintaining debt financing plans;
- Maintaining liquidity and funding contingency plans.

Liquidity position is monitored by the Finance Department and the ALCO. Under the normal market conditions, information on the liquidity position are presented to the Management Risk Committee on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Finance Department.

The following tables show the undiscounted cash flows on financial liabilities and on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liabilities.

The maturity analysis for financial liabilities as at December 31, 2021 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross Amount outflow	Carrying amount
Financial liabilities							
Financial liability at fair value through profit or loss	3	185	-	-	-	188	188
Borrowed funds	4,604	14,847	47,882	82,297	198,870	348,500	314,405
Lease liability	365	730	1,095	2,016	5,979	10,185	9,127
Dividends payable	-	-	-	996	-	996	996
Other financial liabilities	9,203	-	-	-	789	9,992	9,992
Total financial liabilities	**14,175**	**15,762**	**48,977**	**85,309**	**205,638**	**369,861**	**334,708**

(in thousands of Georgian Lari)

The maturity analysis for financial liabilities as at December 31, 2020 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Financial liabilities							
Borrowed funds	273,240	-	6,604	124	-	279,968	279,968
Debt securities issued	-	12,725	-	-	-	12,725	12,725
Lease liability	358	730	1,095	2,208	9,871	14,262	12,522
Dividends payable	-	-	-	999	-	999	999
Other financial liabilities	1,835	-	-	-	5	1,840	1,840
Total financial liabilities	**275,433**	**13,455**	**7,699**	**3,331**	**9,876**	**309,794**	**308,054**

Geographical risk

As at December 31, 2021 and 2020 the Group's all financial assets are located in Georgia and its business plans are critically dependent on the stability and rule of law in the country. Georgia continues to display certain characteristics of an emerging market. As such, the Group is exposed to any deterioration of the business or legal environment within the country.

As at December 31, 2021 Group has borrowed funds of GEL 245,369 thousand, GEL 37,868 thousand, GEL 25,024 thousand and GEL 6,144 thousand received from counterparties registered in Europe, Georgia, the USA and Asia, respectively. As at December 31, 2020 Group has borrowed funds of GEL 234,322 thousand, GEL 26,545 thousand and GEL 19,101 thousand received from counterparties registered in Europe, USA, and Georgia, respectively.

The table below shows an analysis, by expected maturities, of amounts recognized in the consolidated statement of financial position as at December 31, 2021:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Overdue	Total
ASSETS							
Cash and cash equivalents	19,127	-	-	-	-	-	19,127
Financial asset at fair value through profit or loss	103	-	-	-	-	-	103
Loans to customers	74,334	30,991	106,088	128,124	2,676	5,728	347,941
Net investments in leases	3	58	229	4,474	-	898	5,662
Other financial assets	1,559	-	-	497	-	-	2,056
Total assets	**95,126**	**31,049**	**106,317**	**133,095**	**2,676**	**6,626**	**374,889**

(in thousands of Georgian Lari)

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Overdue	Total
LIABILITIES							
Financial liability at fair value through profit or loss	3	185	-	-	-	-	188
Borrowed funds	4,601	14,541	116,570	172,348	6,345	-	314,405
Lease liability	307	626	2,727	5,079	388	-	9,127
Dividend payable	-	-	996	-	-	-	996
Other financial liabilities	9,203	-	-	789	-	-	9,992
Total liabilities	**14,114**	**15,352**	**120,293**	**178,216**	**6,733**	**-**	**334,708**
Net position	**81,012**	**15,697**	**(13,976)**	**(45,121)**	**(4,057)**	**6,626**	**40,181**

The table below shows an analysis, by expected maturities, of amounts recognised in the consolidated statement of financial position as at December 31, 2020:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Overdue	Total
ASSETS							
Cash and cash equivalents	17,884	-	-	-	-	-	17,884
Financial asset at fair value through profit or loss	2,272	237	-	-	-	-	2,509
Loans to customers	15,431	35,362	119,148	135,050	4,377	6,512	315,880
Net investments in leases	-	18	94	1,950	-	184	2,246
Other financial assets	1,928	-	-	614	-	-	2,542
Total assets	**37,515**	**35,617**	**119,242**	**137,614**	**4,377**	**6,696**	**341,061**
LIABILITIES							
Borrowed funds	273,240	-	6,728	-	-	-	279,968
Debt securities issued	-	12,725	-	-	-	-	12,725
Lease liability	283	592	2,756	8,293	598	-	12,522
Dividend payable	-	-	999	-	-	-	999
Other financial liabilities	1,835	-	-	5	-	-	1,840
Total liabilities	**275,358**	**13,317**	**10,483**	**8,298**	**598**	**-**	**308,054**
Net position	**(237,843)**	**22,300**	**108,759**	**129,316**	**3,779**	**6,696**	**33,007**

27. SUBSEQUENT EVENTS

The Group has received the following funding subsequent to the reporting period:

- In February 2022, the Group signed USD 5,000 thousand loan agreement with Triodos SICAV II, GEL 10,000 thousand credit line agreement with JSC Bank of Georgia, GEL 10,000 thousand loan agreement with JSC TBC Bank, GEL 5,000 thousand loan agreement with JSC Pasha Bank;

- In April 2022, the Group signed GEL 20,000 thousand loan agreement with DWM Income Funds S.C.A._SICAV SIF, GEL 10,000 thousand loan agreement with JSC TBC Bank and 2 loan agreements of GEL 8,000 thousand and GEL 5,000 thousand with JSC Basis Bank.

ANNEXES

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE AS OF 2021

	UK Corporate Governance Code	Status
Board Leadership and Company Purpose		**4.6**
	A: Effective Board	Fully
	B: Company purpose and culture	Fully
	C: Resources and controls	Fully
	D: Engagement with stakeholders	Partly
	E: Workforce policies	Fully
Division of Responsibilities		**3.25**
	F: Role of a Chair	Partly
	G: Independent members	Not compliant
	H: Board effectiveness	Fully
	I: Sufficient Board resources	Fully
Composition, Succession and Evaluation		**3.66**
	J: Appointment and succession	Partly
	K: Combination of skills, re-election	Partly
	L: Annual evaluation	Fully
Audit, Risk and Internal Control		**5.0**
	M: Effectiveness of audit	Fully
	N: Risk disclosure	Fully
	O: Internal controls and risk management	Fully
Remuneration		**5.0**
	P: Executive remuneration	Fully
	Q: Transparent procedure	Fully
	R: Independent judgement	Fully
TOTAL SCORE		**4.30**

Note: Fully compliant is measured by 5, partly by 3 and non-compliant by 0.

For the full text of the code please see:
https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code

COMMENTS ON COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

D: There is no effective engagement with employees, i.e. in the form of a workforce advisory panel. Thus, the company partly meets this standard.

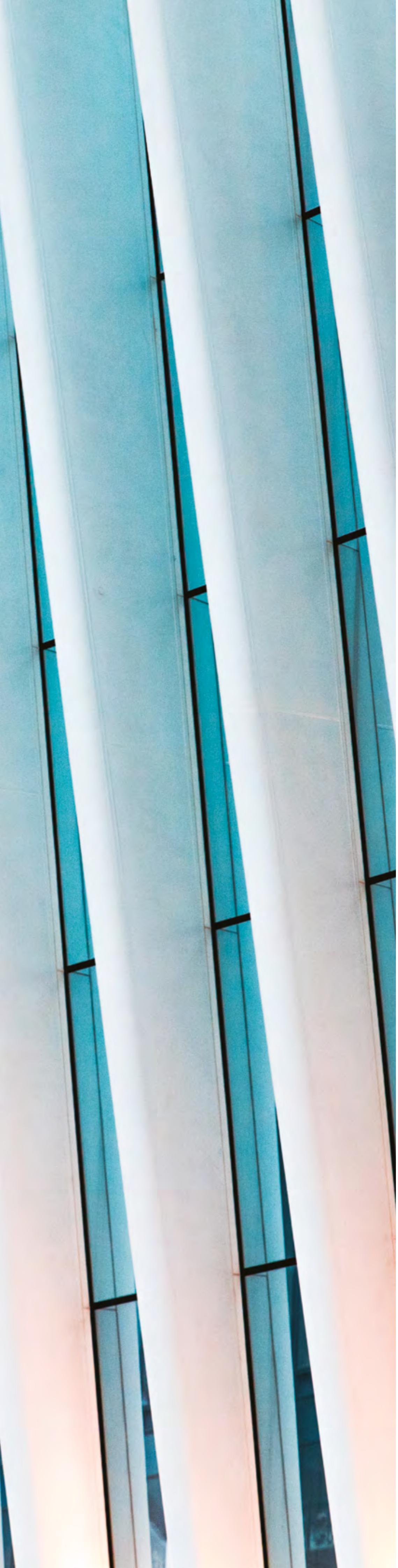
F: While the Chairman is separate from the Chief Executive, he cannot be considered independent according to UK Corporate Governance Code, as, being the largest individual shareholder, he has served for over nine years on the Board. Nevertheless, within all other criteria, including those related to overall effectiveness in directing the company, promotion of a culture of openness and debate and assessment of the Chairman, the company is in compliance with the standards, thus partly meeting the requirement for principle F.

G: At least half of the Board should be independent, however only one member out of five (excluding the Chairman) can be categorised as fully independent under the definition of the Code. Lilit Gharayan, the Chair of the Internal Audit Committee is an independent member; whereas, the other members represent major investors and shareholders, and the Deputy Chairman has served for over nine years and, as an MFSG representative, has had a 'material' business relationship with the company as a director and shareholder within the last three years.

J: Whilst there is a rigorous appointment procedure for members of the Board, there are no succession plans in place, leaving this criterion partly fulfilled.

K: Re-election does not take place on an annual basis. The chair has been appointed for over nine years, although he assumed the renewed role of Chairman of the Supervisory Board in 2018. Crystal does not use any external consultancy for appointing Board members. Therefore, the criterion is partly fulfilled.


A LIST OF
ABBREVIATIONS



AFD Agence Française de Développement
ALCO Assets and Liabilities Committee
AML Anti-money laundering
BPS Basis Points
CA Current Account
CAR Capital Adequacy Ratio
CHCA Charity Humanitarian Centre Abkhazeti
CIS Commonwealth of Independent States
CO Chief Officer
CO2 Carbon Dioxide
DFC US Development Finance Corporation (former OPIC)
E&S Environmental and social
EE Energy efficient
ERP Enterprise Resource Planning system
ESG Environmental Social and Governance
ESMS Environmental and Social Management System
EU European Union
FMO Dutch Entrepreneurial Development Bank
GDP Gross Domestic Product
GEL Georgian Lari
GGF Green for Growth Fund
HQ Headquarters
HR Human Resources
HRMS Human Resources Management System
HSE Health, Safety and Environment
IFRS International Financial Reporting Standards
IMF International Monetary Fund
ISA International Standards on Auditing
JSC Joint Stock Company
KPI Key Performance Indicator
LLC Limited Liability Company
MFI Microfinance Institution
MPR Monetary Policy Rate
NBG National Bank of Georgia
NEER Nominal Effective Exchange Rate
NPL Non-performing loans
PP Percentage point
RE Renewable energy
REER Real Effective Exchange Rate
ROA Return on Assets
ROE Return on Equity
SB Supervisory Board
SDG Sustainable Development Goal
SIDA Swedish International Development Agency
SIM Social Impact Measurement
SME Small and Medium Enterprise
SMS Short Messaging Service
UN United Nations
USD United States Dollar
YoY Year-over-year