crystal

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ANNUAL REPORT
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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 389 million GEL, employs over 1,000 members of staff, operates from 50 branches and serves up to 120 thousand unique customers across the country. Crystal acts as a platform for economic development, providing farmers and micro and small entrepreneurs with innovative financial (Leasing) and non-financial (Consulting and Technology) products and services that are tailored to their needs. Notably, Crystal is the first Fitch-rated non-banking financial institution in the region (B- Stable Outlook). The company also received an A- social rating in 2021 from MicroFinanza, the Global Rating Agency.

In 2021, for projects aimed at empowering and supporting women in Georgia, Crystal was the recipient of a major award from the Millennium Challenge Corporation. MFC, the International Microfinance Association, moreover named Crystal's Green Line (energy efficient credit and installments) among the five best initiatives in the world. Crystal has also been declared a honorary winner at the Best Annual Report and Transparency Competition (BARTA) for the fourth year in a row in Georgia for large financial institutions. This recognition places Crystal within the ranks of all systemic financial institutions in Georgia and also underscores its rightful aspirations towards banking.

For more information and the digital version of this report, please visit: https://ir.crystal.ge/

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STRATEGIC REPORT


Photographer: Achi Gegenava

AT A GLANCE

The core mission of Crystal is to empower entrepreneurs with the capital, knowledge and skills needed to transform their opportunities into well-being.

Crystal's vision is to be a leading financial institution for micro and small entrepreneurs. Our approach goes beyond a focus on credit products and includes providing access to a wider range of services, such as current accounts, cards, leasing and non-financial services, including business and financial advice, technological solutions, education, information and leadership development opportunities. These are all the areas that Crystal aspires to make available for its customers.

By assets, Crystal is the largest non-banking financial institution in Georgia, managing a loan portfolio of 389 million GEL, employing over 1,000 members of staff, operating through 50 branches and serving up to 120 thousand unique customers across the country. Crystal's institutional shareholders include Incofin IM and Developing World Markets. At the same time, the company enjoys a longstanding relationship with around 25 lenders, including international Microfinance Investment Vehicles, Development Financial Institutions and local banks.

Financial and Operational Highlights

	Δ	2022	2021
NET PROFIT	+147.64%	7,875	3,180
TOTAL ASSETS	+14.41%	453,256	396,179
LOAN PORTFOLIO	+11.74%	388,795	347,941
TOTAL EQUITY	+11.43%	67,073	60,195
ROA	+1.02%	1.85%	0.83%
ROE	+7.00%	12.38%	5.38%
NPL	+0.40%	8.70%	8.30%
COST OF RISK	+0.91%	1.68%	0.77%
COST TO INCOME	-6.07%	76.84%	82.91%
BRANCHES	0.00%	50	50
CUSTOMERS	-1.10%	118,453	119,775
EMPLOYEES	+4.92%	1,045	996

Chair's Statement

Archil Bakuradze
Chair of Supervisory Board

Dear Shareholders and Stakeholders,

After the COVID-19 pandemic having triggered high inflation across the world, reversing the global trend of poverty reduction, Europe is now witnessing the largest-scale military confrontation since WWII. It is clearly a human tragedy of an unimaginable magnitude. Most Georgians know about war and its destructive consequences first-hand – not only from history textbooks – and that is why we honor the heroic fight of Ukrainian people for their freedom and their independence.

The potential economic risks due to the war in Ukraine, as described in the previous Annual Report, never materialised in 2022. On the contrary, the flow of people and capital have had a moderately positive impact on the already vigorous economic recovery, resulting in annual GDP growth of 10.1%.

Increased exports, revenues from tourism, and cross-border remittances combined with prudent monetary and fiscal policies allowed Georgia to improve almost all macroeconomic parameters (see the Macroeconomic and Market Overview section), culminating in an upgraded 'BB' sovereign rating from Fitch Ratings – one notch away from investment grade.*

The country's robust geopolitical position and its potentially growing economic role in the region is not a guarantee for the prosperity of its people. Crucially, any reduction in poverty levels and inequalities will not happen automatically. It will require inclusive and sustainable economic growth, dependent inter alia on the development of the vibrant MSME and agricultural sectors, the enhanced participation of women and the youth in economic life, and the effective management of migration of conflict displaced individuals.

Crystal's mission is to contribute towards the goals of financial inclusion and sustainable economic development, in a manner which generates and preserves long-term shareholder value. To achieve this, we act as a development platform for micro and small entrepreneurs and small-holder farmers. Our customer-centric approach and wide distribution of services allows us to grow in a highly competitive market. You may read more about our business model, competitive advantage and our plans within the Strategic Report.

The year 2022 found an improvement in practically every major indicator for Crystal. Our loan portfolio grew by 11.7%, the Cost-to-Income Ratio decreased to 76.8% (from 82.9% in 2021) and ROE reached 12.4% (from 5.4% in 2021), while we also managed to maintain a strong capital adequacy ratio** of 17.93% (20.47% in 2021).

* On 27 January 2023, Fitch Ratings revised its outlook on Georgia's long-term foreign-currency Issuer Default Rating (IDR) from Stable to Positive, and it affirmed the IDR at 'BB'.

** Capital Adequacy Ratio (CAR) is determined, based on the rules and guidelines of the National Bank of Georgia, rather than IFRSs

We additionally made tangible progress in bolstering our governance (see our Governance Statement below) and preparing to obtain a banking license. Building on this trend in 2023, Crystal anticipates a return to pre-COVID performance indicators. As defined by our new 2023-2025 corporate strategy, we shall set a course towards becoming the best-in-class sustainable bank. It is also worth mentioning that Crystal has now made its first firm steps towards geographic expansion by establishing a long-term commercial partnership with a regional MFI in Uzbekistan.

Alongside financial returns ('profit'), we pay equal attention to our 'people' and 'planet' outcomes and consider how these contribute towards the achievement of the Sustainable Development Goals. Shortly after this report, we shall publish the Crystal Sustainability Report 2022 to disclose our progress in achieving such environmental and social objectives.

In 2023, Crystal will celebrate its 25th year. We aim to mark this anniversary by securing a micro-banking license, returning to pre-Covid levels of financial performance and profitability and establishing our first foothold in a regional expansion strategy.

In conclusion, I would like to thank our shareholders, lenders, suppliers, partners, our technical assistance donors, and Crystal's amazing people, including members of the Management Team and my fellow colleagues on the Supervisory Board.

Sincerely,

Archil Bakuradze
Chair of the Supervisory Board

Chief Executive Officer's Letter

Ilia Revia
Chief Executive Officer

Dear Shareholders,

2022 was a year of hard work and improved results, both for Georgia's economy and Crystal as well. After successfully weathering stacked crisis induced by the pandemics and Russia's war in Ukraine, the company has made strides in improving profitability, at the same time significantly strengthening our institutional capabilities and managing major improvements in the organizational structure, processes, and systems.

The success of any financial institution is most vividly expressed in numbers: just as in 2021, this year we strengthened our results: the loan portfolio surpassed 400 million GEL*, and the number of our active borrowers was maintained around 120,000. Our team has focused on **improving profitability**, which was successfully managed despite significant increases in the cost of doing business, regional instability, tightening regulatory requirements, and a record-breaking inflation rate. **As a result, Crystal's ROE has reached 12.4%, improving by 7% from the 2021 results while portfolio grew by 11.7%**. Based on external qualified study of the micro segment customers Crystal also **had highest Customer Satisfaction (9,3 out of 10), Recommendation (9 out of 10) and second-highest Loyalty (9,4 out of 10) scores, overtaking major systemic banks and other market players. Our Net Promoter Score (NPS) stood at record-high 86 and we were also named as the 5th most recognizable brand among the financial industry.**

In 2022, we disbursed 154 million GEL to small businesses and 99 million GEL to agriculture customers – a record result compared to previous years. At the same time, the asset quality remained high thanks to prudent credit risk management. I'd like to bring to a focus the success of the leasing line, where the portfolio increased by 73.8%, reaching 10 million GEL. The number of leasing business customers, including legal entities, self-employed and individual entrepreneurs grew by 63%.

As for the non-credit transactions, foreign currency conversion operations have significantly boosted our revenue levels in 2022 as the income from conversion operations and revaluations surpassed 5.5 million GEL. Remittances and utility payments also showed considerable growth, the generated income totaled 700,000 GEL with up to 59,520 customers being served.

The year proved fruitful for fundraising team, we continued to attract investments from our longstanding and new international partners, which further solidified our reputation as a reliable financial institution and opened additional opportunities to implement our core mission. Total investments raised in 2022 made up 240 million GEL, which is 53 million GEL higher than in 2021.

All our good work was hardly left without notice, with Crystal receiving significant recognitions for the way it does business:

- We became an award winner at the Best Annual Report and Transparency Award "BARTA 2022" for the fourth year in a row, confirming that we continue to be committed to one of our major organizational values – transparency.

* Loan Portfolio Principal based

- Fitch Ratings re-affirmed Crystal's Stable outlook in 2022, which amidst the global challenges, is a significant success.

- Crystal Consulting developed ERP system for small businesses was named the best complex business solution of the year at the IT innovation award "GITI 2022."

As terrible conflict continued in Ukraine, our response was to partner with other businesses to support Ukrainians coming to Georgia and to send humanitarian aid to Ukraine. It makes me proud to see how exceptionally well our company and employees have supported the Ukrainian people fighting for freedom and democracy.

At the same time, we remained forward-thinking, by actively working towards the strategic goal of banking transformation. We continued large-scale organizational changes with a view to approximating the organizational structure, processes, and products of Crystal to those of the bank. Simultaneously, Georgian parliament has signed the law on Microbanks. As many of you are aware, Crystal has strongly advocated passing this legislative reform as a major step in a positive direction, providing far better opportunities for our company to serve its customers. Micro bank transformation will also result in higher customer retention and increased non-credit revenues, and fuel the growth of the loan portfolio, which will subsequently unlock the efficiencies of scale. Transformation will also strengthen Crystal's positioning by unlocking a substantial shareholder value against the low risks of the highly regulated banking sector and Georgia's consistently robust macro-prudential performance.

It is noteworthy **that all priority areas which were planned in 2022 – process automation, boosting of financial results, organizational capacity strengthening and subsidiary development – have been successfully implemented and in each area, we've made tangible progress.**

Outlook

Georgia's economic performance and the benefits of Crystal's strong business model leave us well-positioned for the future. Amidst the existing challenges, 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. I believe we will keep on the same track in 2023 as well. Through joint team efforts, we will manage to turn Crystal into a successful and robust bank. The key priorities for 2023 are as follows:

1. Successful completion of the Banking Transformation Program

2. Further improvement of the financial results

3. Automation of the loan application and decision-making process

4. Strengthening of organizational capabilities

Our People

Implementation of such large-scale projects and changes required mutual understanding, appreciation, and respect for each other's work, along with constant individual and collective learning. **Although 2022 abounded with a lot of market uncertainty, strong teamwork and managerial foresight helped us successfully manage significant changes.**

I cannot thank the incredible Crystal team enough, and all our stakeholders and partners for their dedication and support during the past year. I am truly humbled by and beyond appreciative of the relentless commitment of our staff to continually serving our customers, their dedication to their work and genuine care for each other. Our results, while a product of many factors, are primarily due to our 1,000 professionals across Georgia.

OUR PEOPLE BRING SUCCESS TO CRYSTAL!

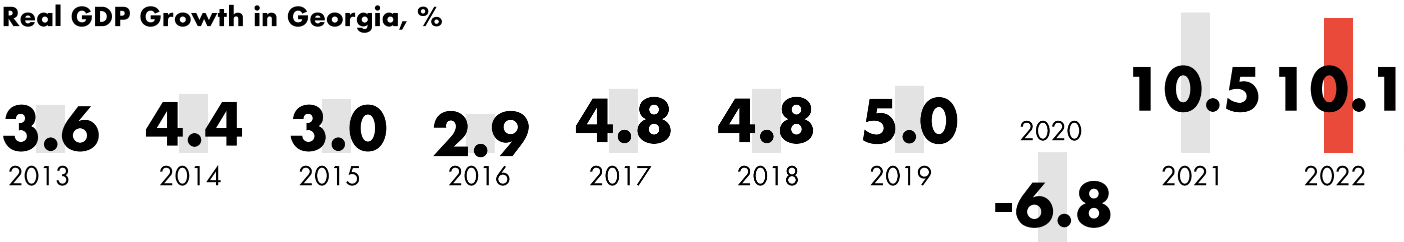
Ilia Revia
Chief Executive Officer

MACROECONOMIC AND MARKET OVERVIEW

Gross Domestic Product

2022 was a tough year, first and foremost in terms of the human toll caused by Russia's invasion of Ukraine. At the same time, the increasingly uncertain and complex geopolitical environment has certainly been and continues to be a matter of concern. It all has been coupled with increased cases of the Omicron strain at the beginning of the year and double-digit inflation. Nevertheless, Georgia's economy has once again shown its resilience. By decision of the government, all Covid regulations have been lifted as of 2022, which has had a positive effect on macro indicators. Since the start of the Russian-Ukrainian war, migration to Georgia has increased significantly, which has had a positive impact on remittances and tourism inflows. In addition, migration of Georgians abroad has significantly increased. In particular, tourism revenues increased by almost 182%, remittances significantly increased as well, showing a 86.1% rise compared to the previous year. Additionally, Foreign Direct Investments (FDI) grew (61%) while the Current Account (CA) deficit reduced to 4.1%. A sharp rise in lending also had a substantial impact. The strengthening of GEL significantly reduced the growth of imports in GEL equivalent. Consequently, in 2022, nominal economic growth of ~20% was observed, however, due to high inflation, real GDP growth for the year totaled 10.1%.

Real GDP Growth in Georgia, %



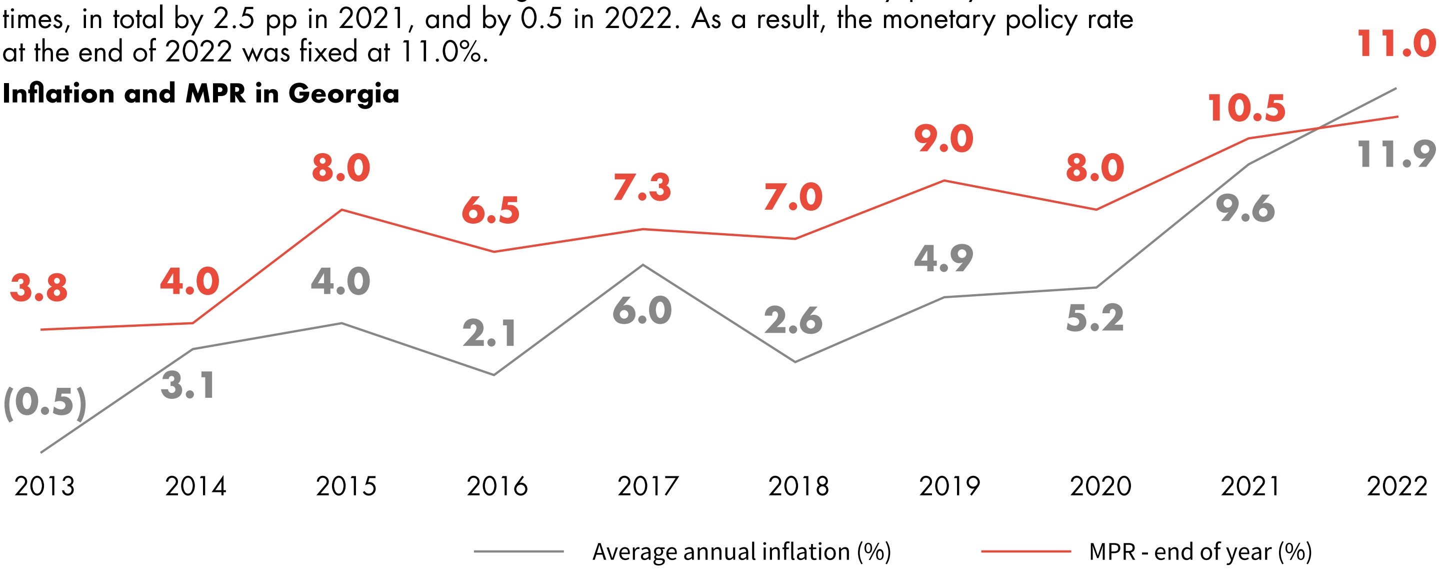
Source: National Statistics Office of Georgia and the National Bank

Inflation and the Monetary Policy Rate

The restrictions in response to the Covid-19 pandemic introduced in 2020-2022 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 2.3 pp compared to 2021, and equalled 11.9%. In 2022, the Russia-Ukraine war broke out, which further increased the prices of consumer goods. In addition, the demand grew due to the large migration from Russia-Ukraine, causing a shock increase in prices (especially, for rent and real estate). Nevertheless, inflation has already returned to the target of 3% in 2023. In general, inflation has remained a significant global challenge since the start of the pandemic.

To harness inflation in 2021-2022, the regulator increased the monetary policy rate several times, in total by 2.5 pp in 2021, and by 0.5 in 2022. As a result, the monetary policy rate at the end of 2022 was fixed at 11.0%.

Inflation and MPR in Georgia



Source: National Statistics Office of Georgia and the National Bank

Jobs 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 (more than 50%) 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 2021, the unemployment level decreased by 3.3 pp in 2022, equalling 17.3%. This was largely due to additional jobs created by the state and business, increased demand due to migration from Russia-Ukraine, and the outflow of unemployed from Georgia.

Unenemployment Levels in Georgia, %

2015	2016	2017	2018	2019	2020	2021	2022
21.9	21.7	21.6	19.2	17.6	18.5	20.6	17.3

Source: National Bank of Georgia

Exports and imports

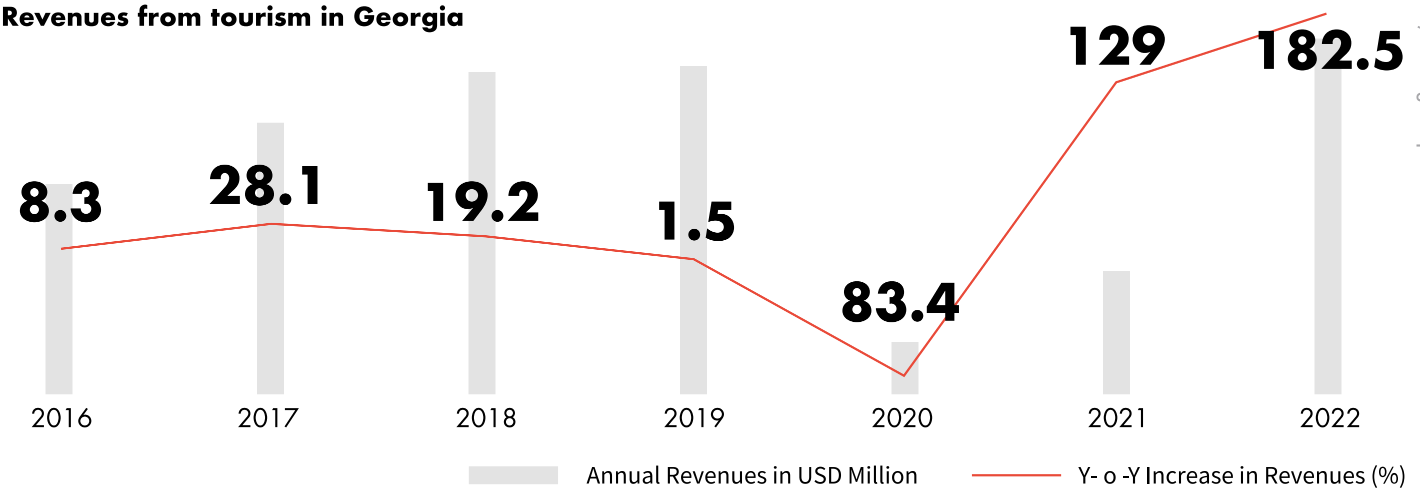
With the opening of the economy and the double-digit GDP for the last 2 years, the export of goods in 2022 amounted to 5.6 billion US dollars, which is 31.8% more YoY. The most notable contributors were the CIS countries (48.2%) and the European Union (15.4%).

Opening of the economy, migration from Russia and Ukraine, recovery of tourism, appreciation of the national currency and rise of remittances each increased internal demand and therefore, imports. In 2022, the import of goods amounted to 13.6 billion US dollars, which is 34.6% more compared to the previous year. While the major contributors to import were the CIS (27.4%), EU (22.6%) and Turkey (17.5%).

Tourism

By 2022, revenues from tourism exceeded the pre-pandemic period (2019) by 7.6%. There is also a tangible improvement YoY. In particular, compared to 2021, tourism revenues increased by 182.5%, reaching 3,517 million US dollars.

Revenues from tourism in Georgia



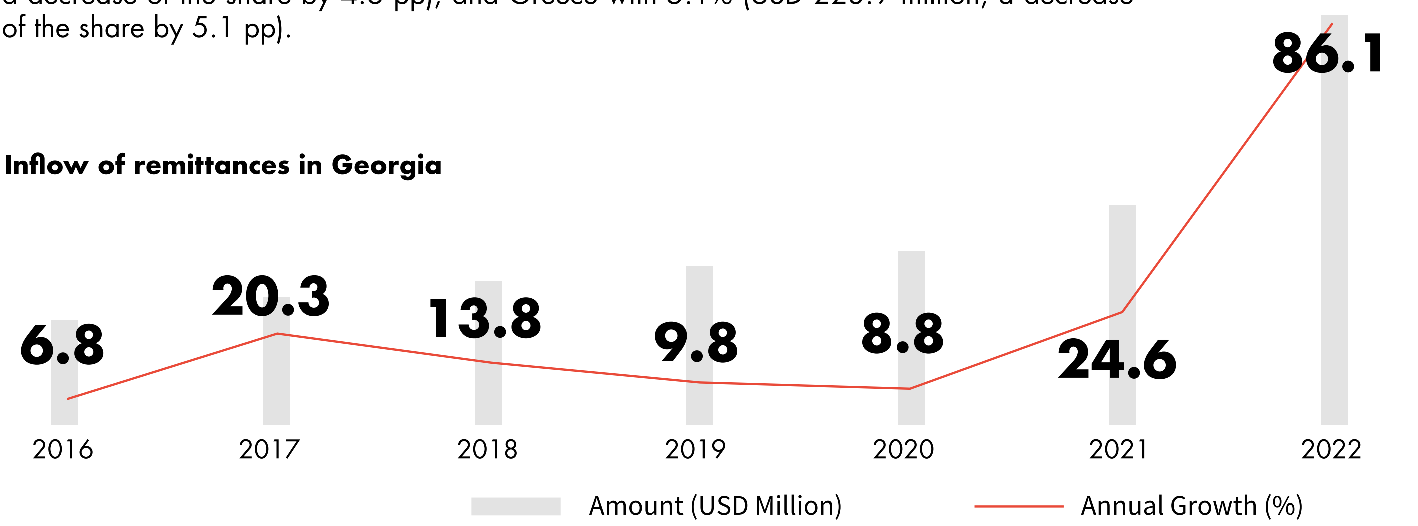
Source: National Bank of Georgia

Remittances

The flow of remittances increased by 86.1% (USD 2,023 million) YoY in 2022 and amounted to USD 4,372 million. The main contributors to the growth are remittances from Russia, in particular, there is a 402% increase YoY.

A significant share of remittances came from Russia, at 47.5% (USD 2,068 million, indicating an increased share of 29.8 pp YoY), Italy ranks second – with 9.9% (USD 431.7 million, i.e. a decrease of the share by 6.5 pp YoY), followed by the USA with 7.5% (USD 327 million, i.e. a decrease of the share by 4.6 pp), and Greece with 5.1% (USD 223.9 million, a decrease of the share by 5.1 pp).

Inflow of remittances in Georgia

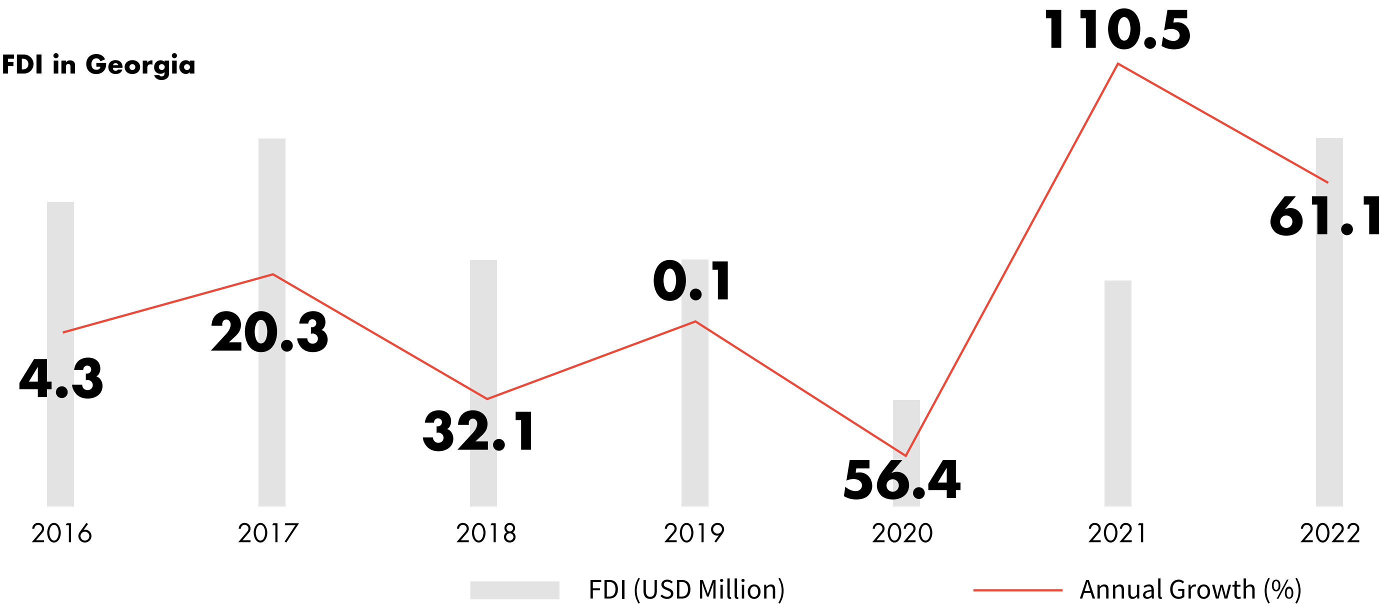


Foreign Direct Investments

According to the preliminary data, in 2022 Foreign Direct Investment (FDI) inflows to Georgia amounted to USD 2,000 million – 61.1% more than the specified data from 2021. This figure is also the highest on the record.

According to the same source, the largest share of FDI in 2022 came for the financial sector at 26.3%, followed by real estate – 20.3%, water supply – 9.3% and energy – 7.5%.

FDI in Georgia

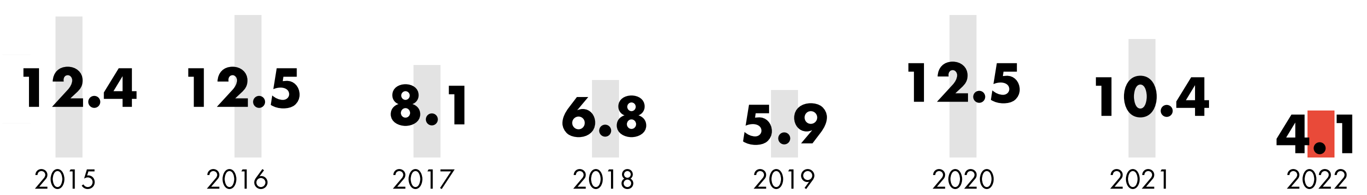


Source: National Bank of Georgia

Current accounts

Compared to 2021, significantly increased remittances, exports, FDI, revenues from tourism, appreciation of the national currency alongside the opening of the economy, all had a positive effect on the 2022 Current Account (CA) balance. The CA deficit amounted to 4.1% of the GDP in 2022.

CA Deficit to GDP in Georgia, %



Source: National Bank of Georgia

Exchange Rates and Foreign Currency Reserves

In 2022, compared to 2021, the average annual GEL exchange rate against the USD decreased by 9.5%, by 19.3% against the EUR, by 1.1% against the Russian ruble whereas it strengthened by 52.2% 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 24.9% and 15% YoY, respectively. In 2022, the foreign currency reserve amounted to USD 4,902 million.

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

In 2022, as compared to 2021, the portfolios of commercial banks increased by 14.24% (GEL 1,057 million) YoY to GEL 8,478 million. Whereas, microfinance organizations' portfolios grew by 15.72% (GEL 214 million) YoY and reached GEL 1,574 million. As such, the total market size for portfolios increased by 14.47% (GEL 1,271 million) YoY and stood at GEL 10,052 million.

In terms of loan contracts in 2022, the market size expanded by 2.74% (by 91.7 thousand) YoY over 2021, and amounted to 3.43 million contracts. In commercial banks, they decreased by 0.33% (8.7 thousand) YoY and amounted to 2.61 million contracts. Loan contracts from microfinance organizations declined by 13.82% (100.4 thousand) YoY, equaling 827.2 thousand in total.

International Ratings – S&P Global Rating

The negative macroeconomic trends caused by the Covid-19 pandemic in 2020 and the ongoing political crisis also had an effect on the «S&P» credit rating, in which the assessment of Georgia's perspective changed from positive to negative, while the sovereign credit rating remained untouched at the BB level. Considering the positive results from 2022, S&P upgraded Georgia's outlook to negative stable, although leaving the sovereign credit rating unchanged at BB level.

CORPORATE STRATEGY

With microbank license upcoming and significant opportunities opening, we have taken a new look at our mission, vision, and strategy, simultaneously redesigning our brand promise, and coming up with updated vision in terms of customer segments, products, and services we want to offer.

Crystal's updated **mission is to strengthen entrepreneurs with capital, knowledge, and skills,** so that they transform opportunities into wellbeing. By providing entrepreneurs and individuals of Georgia with access to financial products and services, knowledge, technology and skills, Crystal will enable them to create jobs in the economy, build assets and improve standard of living across the country.

Crystal's updated **vision is to be the leading bank serving micro and small entrepreneurs,** while operating on principles of commercial performance and social and environmental sustainability.

Crystal's **brand promise is to act as a trusted partner,** providing business or individual customers with opportunities to start or develop their businesses, improve livelihoods, and build better future for their families and society.

Crystal's **strategy is to leverage existing brand, customer base and extensive branch infrastructure, while diversifying its product offering** to include savings deposits, remittances, currency exchange, mobile banking, consultancy, and technology services to both existing and new customers, with **focus on the rural segment, micro and small entrepreneurs.** Upon obtaining micro bank license, Crystal will continue to serve the same segment of customers, and gradually expand into coveted SME sector, from a much stronger financial and institutional platform, thereby creating more value for all our stakeholders.

Mid-term strategic objectives will be as follows:

1. Obtain leading market position in the microfinance segment and deliver strong financial performance.
2. Maintain focus on core (micro) clientele, while gradually increasing share of business with SME segment.
3. Launch savings products, focusing on core clientele or those customers who currently have small amounts to save but do not have banking relationships, high-net-worth individuals, and corporates.
4. Further develop the existing credit product offerings (loans, leasing, etc.)
5. Develop non-credit products.
6. Upgrade institutional infrastructure, human resource capabilities and operational procedures to support the needs of the transformed institution.
7. Ensure digitalization and efficiency of core business processes.

Crystal is a leading Georgian financial inclusion organisation, which provides various financial and non-financial services.

BUSINESS MODEL

We focus on providing the best and personalized customer experience in micro finance via branches and digital channels. The following diagram encapsulates Crystal's business model:

PRODUCTS/ INPUTS		CHANELS	SEGMENTS
Microloans	Instalments	Branches	Small Holder Farmers
SME Loans	EE&RE	Direct	Micro Entrepreneurs
Leasing	Factoring*	Mobile	SMEs
		Online	Retail Customers
Payments	Consulting	Call centre	Special Groups: Youth; Women; Diaspora*; Vehicle buyers, Mortage & GG loan users
Currency	Technology	Agent Network	
Insurance	E-commerce	Merchants	

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 personalised consulting and development services within our business support programs.

Our non-credit business offers expanding range of transactional products such as payments, money transfers, currency conversion, insurance, and related services.

Crystal's funding sources are diversified and 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.

* Future products and segments

SIGNIFICANT BUSINESS UPDATES

2022 was a year of improved results for the business, despite a challenging operating environment.

In 2022, Crystal's loan portfolio increased by approximately 12%, surpassing 400 million GEL* as of 31 December. While the number of active credit customers was maintained up to 120,000.

In total 180,000 unique customers were served over the year, exceeding similar 2021 data by 14%.

It is noteworthy that the emphasis was primarily placed on agro- and micro-lending in 2022. Throughout the year, agro- and micro-credit increased by around 50 million GEL – marking a 41% YoY increase.

The year was also quite active in terms of product upgrades. The first half of the year saw significant changes in the auto product, where its features have been completely updated and adapted to the competitive market environment. Additionally, with the entire network involved in sales, the product became available to a wider segment of consumers. As a result, the portfolio increased by almost 300%, reaching 14.7 million GEL by the end of the year.

The main focus in 2022 was to significantly improve the process of disbursing loans of up to 30,000 GEL. During the year, the company served up to 80,000 clients in this direction – with the amount of issued loans totalling 310 million GEL, marking an increase of 23% YoY.

The company has furthermore successfully provided loans under the DFC/Sida loan guarantee mechanism. More than 6,000 loans, worth 23 million GEL, have been issued under the guarantee scheme. Against the backdrop of various fiscal challenges, the guarantee scheme adds flexibility and surety to the company's financing, which in turn significantly increases our customer's access to financial resources. During the year, the company was able to repay up to 75 problem loans through the guarantee scheme, amounting to approximately 170,000 GEL.

The company is actively continuing to develop its green initiatives. In 2022, the amount provided for financing green purposes reached over 22 million GEL, an increase of 46% YoY. This includes financing solar panels for Crystal customers, which has also contributed to raising public awareness.

One of the priorities this year was the development of non-credit products. For instance, the introduction of one new non-credit product, the SMS service, ensures additional user comfort by providing detailed information on completed transactions.

At the end of 2022, the process of receiving remittances was simplified significantly, thus allowing us to serve up to 183,000 customers during the year. The company generated a total of 650,000 GEL in remittances, an increase of approximately 20% from the previous year.

Important steps were taken in 2022 towards modifying the present insurance offering and introducing new insurance products. In particular, customers currently have the option to insure for both life and auto risks, as well as agricultural risks. Diversifying partner insurance companies has also provided customers the opportunity to select the best-suited terms and conditions. As such, a total of around 90,000 clients were insured. The life insurance portfolio increased by 130 million GEL throughout 2022, and by the end of the year it amounted to approximately 300 million GEL. While the amount of reimbursed losses reached approximately 420,000 GEL.

* Loan Portfolio Principal based

From the spring of 2022, Crystal introduced a completely new product, car insurance, the content of which is adapted to the needs of the customers and the car loan product. The insurance portfolio in this area reached 12 million GEL, with more than 1,100 customers.

Since July 2022, pay box network has expanded, allowing Crystal to completely remove transactions of up to 500 GEL from cashier desks. This has consequently reduced queuing at cash desks and greatly accelerated the customer service process.

Crystal's constant attention to its customers and quality of processes has paid off. According to 2022 brand and market study, performed by ACT, Crystal leads among the large, systemic banks, with the average customer satisfaction score reaching 9.3 out of 10.

LEASING

Leasing is a key strategic direction for JSC MFO Crystal, which has been developing successfully since 2020. To date, the total leasing portfolio amounts to 10 GEL million and includes 250 clients. The greatest part of these consumers are entrepreneurial legal entities.

For 2022, the portfolio grew by 74%, and was predominantly concentrated in the following sectors: construction, transport and logistics, manufacturing, and agriculture. The development of the latter has been greatly facilitated by the low-cost agro-leasing programme, managed by the Rural Development Agency.

Over the past year, yield amounted to 26.4%. The operating cost ratio and efficiency have also improved considerably. Crystal opened an office in Batumi and the Company is planning to expand to other regions as well, with the goal of being represented in Kutaisi, alongside Tbilisi and Batumi, by 2023.

Along with portfolio growth, the targeted portfolio quality parameters have equally been achieved. The NPLs (PAR 90+ restructured) stand at 5.5%. The process of remarketing terminated contracts has moreover been fine-tuned. As a result, the cumulative loss on these operations now totals zero.

RELATIONSHIP WITH INVESTORS AND FUNDING

In 2022, the effects of the pandemic were exacerbated by regional instability, the war in Ukraine and by increasing inflationary pressures. All of these were detrimental to the country's image, and consequently affected the dynamics of foreign direct investment into Georgia. In response to these challenges, Crystal's team prepared and provided partners with reliable monthly updates on current political and economic developments, together with the company's financial and operational performance. This transparent approach certainly paid off, as during the year the team was able not only to maintain but also to increase funding and to attract new partners.

In 2022, 24 transactions were completed at a total of 238.3 million GEL, of which:

- 6 were with international partners (100.3 million GEL).
- 18 were with local banks (138 million GEL).

In terms of the respective currencies, the ratio was as follows: GEL 82% and USD 18%.

Concurrently, Crystal continued to seek additional funding sources and remained active in the capital market. In cooperation with the brokerage agency Galt & Taggart, the company started working on a 25 million GEL transaction. Being Crystal's third transaction in a row, there was greater interest in the local market. Eventually an agreement was reached between the Asian Development Bank (ADB) and the Bank of Georgia, and their participation was determined at 75% and 25%, respectively. As it was the first transaction between Crystal and ADB, it also sparked interest among the public. In addition, bonds were issued for a special purpose, namely to strengthen financing for women entrepreneurs. The completion date of the transaction was set for 8 February 2023.

In addition to the aforementioned funding sources (local banks, international partners, capital market), the Crystal team aimed to develop an alternative funding channel. Prior to obtaining micro-banking status and the right to accept deposits, the company planned to launch a promissory note product. Work in this direction has since been successfully completed and the promissory note was officially launched in the fourth quarter of 2022.

Against the backdrop of complicated international affairs, Crystal responded to the challenges reasonably and ended the year with a stable rating from the international agency, Fitch Ratings. Partnership with the agency has been ongoing since 2017, and during this time both parties have developed solid, trust-based cooperation.

TRANSACTION PARTNERS IN 2022

FMO Finance for Development
BlueOrchard Impact Investment Managers
symbiotics
Developing World Markets
Triodos Investment Management
თიბისი ბანკი TBC BANK
საქართველოს ბანკი BANK OF GEORGIA
PASHA Bank New heights. Together
ბაზისბანკი BASISBANK

2022 TECHNICAL ASSISTANCE

Together with the funding process, the team also worked on technical assistance. Since the beginning of the year, the main focus has been on supporting the banking transformation program, therefore the targeting of grant schemes was determined based on these banking needs. In this light, an important agreement with the Dutch Development Bank, FMO, was concluded, incorporating a two-year contract worth €200,000. This agreement provides for the co-financing of projects related to the banking transformation.

KEY RISKS AND UNCERTAINTIES

Developing a sound and effective Risk Management System, based on international standards and best practices, is one of Crystal's most significant goals. In order to improve the risk management framework, the company carried out the following activities in 2022:

Credit Risk Management

- The company's risk appetite changed notably in 2022, ensuring improvement in loan portfolio quality.
- The introduction of data-driven decision-making tools has strengthened the company's underwriting process. These tools are based on both expert knowledge and data, which are both critical in credit risk management processes.
- The risk direction within the portfolio has become much more focused on data-driven decisions and statistical analysis. The portfolio analysis process has been updated significantly and has become much more informative, thereby contributing to better risk identification.
- The expected credit loss calculation model has been updated to meet the requirements of IFRS 9. The amended model allows the company to calculate expected credit losses with much greater accuracy and to aid their prevention.
- Credit portfolio concentration (diversification) limits have been updated to avoid concentration risks, which in turn, ensures stable portfolio management.
- A counterparty risk management policy has been established, which provides for the assessment and monitoring of counterparty risks and the management of appropriate limits.

Operational Risk Management

- The Risk Self-Assessment (RSA) tool was introduced in 2022, allowing the effectiveness and weaknesses of existing controls in critical business processes to be assessed across the company.
- Key Risk Indicators (KRIs) were introduced, thus enabling the company to identify and prevent expected risks at an early stage.
- A New Risk Assessment (NRA) process has been implemented. This process helps to predict expected risks in new products, channels and processes, and to embed the appropriate controls.
- The Risk Events Database (RED) has been updated. As a result, the data collected has become much more informative for strengthening control mechanisms in business processes.
- The Business Continuity Plan (BCP), required to maintain business continuity in critical situations, has been updated to encompass all critical business processes.

Compliance Risk Management

- The Compliance Risk Management Policy was updated in 2022. This policy ensures that the vision of the Supervisory Board (SB) is implemented throughout the company, which in turn provides the basis for managing compliance risks.
- Compliance with anti-money laundering and anti-terrorism regulations plays an important role in compliance risk management. In 2022, the company made considerable improvements to the process, taking into account the recommendations of the regulator. Procedures were consequently amended, processes were refined and technical support was also improved.
- A quarterly compliance report is regularly submitted to the Supervisory Board.

Liquidity Risk Management

- In 2022, the liquidity management policy was updated. The revised policy clearly expounds every possible factor affecting liquidity and it identifies prevention mechanisms.
- The company regularly prepares stress tests and plans appropriate respective actions.
- In order not to be dependent on a single source, the company has set a funding source concentration limit of 20% for total liabilities.
- The ALCO Committee, which will be transferred from the Supervisory Board to the Management administration from 2023 onwards, is an effective risk management body. This move will ensure the Committee's flexibility and facilitate rapid management response.
- A vital structural change took place in 2022, with a respective structural unit being created under the Risk Directorate. With this adjustment, the management has introduced a three-line defense mechanism into the liquidity risk management process.

Foreign Exchange Risk Management

- An open position limit of +-10% has been approved to safeguard risk limitation.
- The VAR method, which includes a detailed calculation of expected losses, was implemented.

Interest Rate Risk Management

- The company introduced a maturity repricing gap measurement tool which allows it to calculate expected 12-month losses and to plan accordingly.

Capital Adequacy Risk Management

- The company introduced a capital adequacy management policy in 2022, with relevant powers and responsible directions.
- Alongside the policy, a capital stress test was developed for the pre-analysis of the impact of various macro factors and business results on capital, and for planning appropriate actions.
- In 2022, an important structural change was enacted within the company: an appropriate structural unit was created within the Risk Directorate, representing the second line of defence in the liquidity, currency, interest rate and capital adequacy risk management process. Under this change, the management has introduced a three-line defense mechanism throughout all risk management processes.

CORPORATE SOCIAL RESPONSIBILITY

Significant Projects Implemented in 2022

Empowering and Supporting Georgian Women Entrepreneurs and the Youth

The Buzz Georgia Women's Empowerment Mission, launched in 2020 by Crystal, in partnership with USAID Georgia and the Netherlands, **has already empowered 1,300 women across the country.**

- By enhancing and motivating the personal and entrepreneurial skills of 1,300 women entrepreneurs, Crystal has strengthened 1,500 Georgian families, including 5,000 of their family members and up to 30 villages and towns, thereby contributing to the establishment and growth of local self-governance throughout the regions of Georgia.

- Up to 30 training sessions have been conducted across Georgia – in an online as well as an offline, face-to-face modality. These covered the regions of Western Georgia: Imereti, Samegrelo, Guria, Racha and Lechkhumi.

- Around 100 trained female entrepreneurs participated in the USAID annual New Year and Christmas sale in December. They were able to sell products worth tens of thousands of GEL in Tbilisi's Dedaena Park, while also presenting their goods to hundreds of guests and visitors.

- During the project, over 5,625 young people (including 3,888 girls and 1,738 boys) participated in the YES-Georgia Young Entrepreneurs' School. Approximately 1,500 young people successfully completed this entrepreneurship training course; with Crystal also financing 96 young entrepreneurs (55 girls and 41 boys), where 64 businesses are successfully and continuously operating.

Improving Crystal's Environmental and Social Responsibility System, in Cooperation with GGF

- In 2022, with the technical assistance of Crystal's international partner, Finance in Motion from EFSE/GGF, a GAP analysis of Crystal's environmental and social (E&S) systems, policies, organisational capacity and its procedures; a revision of its sustainable finance rules; the development of an action plan and implementation strategy based on Crystal's weaknesses and strengths were each carried out.

- Future implementation of the action plan and strategy will enable Crystal to introduce a comprehensive system for sustainable development and to meet the universal standards for environmental and social management systems.

Successful partnership with DWM and MSC MicroSave Consulting

As part of the successful partnership, gaps were identified in climate impact assessment and climate risk management, and key recommendations were drawn.

Successful Cooperation with the German Sparkasse Foundation

Crystal has actively begun cooperation with one of its foreign partners, Sparkassenstiftung. This collaboration aims to explore and implement opportunities for Crystal's Green and Sustainable Financing Compass and the Green Financing Speedometer, together with the best financing practices. The implementation of sustainable financing was consequently assessed and a future strategy was also defined.

Under Crystal's Green Products & Green Finance Initiative

Throughout 2022:

- 3,136,905 (kWh) of energy was saved.
- 464,119 kg of CO_2 was averted from the environment.

Educational Activities

As part of Global Money Week 2022, the company held training sessions for its partner university students, for the young people participating in the internship program and for members of the sales team on the importance of saving and money security features, and the use of techniques and devices for checking banknotes. This will greatly assist their ability to identify counterfeit money and in taking the appropriate preventive measures.

WORKING TOGETHER, DEVELOPING TOGETHER...

PEOPLE IN OUR ORGANISATION

Crystal's social responsibility towards its employees is expressed through healthy, safe, trust-based relationships and a fitting business attitude. The company continuously strives to create an environment where employees can express themselves, become engaged, and grow professionally and personally in a competitive and rewarding work environment.

In terms of talent development and management, 2022 was a particularly important year for the company. Despite the competitive market environment, the company has taken important steps both in terms of improving its HR activities and when caring for its employees.

- The company ended 2022 with 1,051 employees.
- During the year, the recruitment process was efficiently managed. In this respect, it was a record year – where 395 employees joined Crystal: 122 in new positions and 273 in replacement roles. As a result of proper management within recruitment, 23% of open positions were filled via internal resources, which clearly demonstrates that all employees have equal opportunities for career growth and development at Crystal.

- At the strategy level, the company shares the UN Sustainable Development Goals, which promote "ensuring inclusive, equitable education and creating lifelong learning opportunities for all" (SDG 4). The company has therefore developed a training mechanism to help employees quickly adapt to both business processes and teamwork and to grow professionally. To this end, the company has various training programmes that provide equal opportunities for career development for our team members. In 2022, a number of training sessions and webinars were held for both head office and branch network employees. A total of 232 employees received basic training, 435 employees attended various training courses, and 98 managers received leadership development training. In addition, over 1,000 employees attended various awareness-raising webinars in information security and occupational safety.

- An award ceremony was held for the winners of the Crystal Olympiad – a motivational system that considers both tangible and intangible components of motivation. Sales teams and individuals competed against each other as part of the competition. During which, the winners received prizes as incentives and recognition from the management. A total of 70 officers and 40 branches were awarded as part of the competition over the year.

- For the first time, the motivational 'Rally of Ideas' project was held in 2022. The aim of which was to identify, with employee involvement, innovative ideas and initiatives aimed at the development of the company. Five winning projects were awarded, which the company has since started to implement.

- Crystal, as a development platform, offers young people interested in the financial sector the opportunity for professional growth, development and, as a result, decent employment. As such, more than 160 people were retrained last year within the company's internship programme, and around 70 interns were employed in various positions. Notably, this project is one of the main sources for discovering new talent and replenishing the company's human resources.

- Within the microfinance segment, Crystal is one of the leading financial institutions throughout the region. Therefore, it is not only local and international schools that turn to the company for internships and the exchange of experience. A delegation from Albania, Kazakhstan and Uzbekistan visited Crystal in 2022 to learn about those reforms and achievements the company implemented. The internship for students from the University of Venice was especially remarkable: for three months the company hosted and assisted these students in a practical analysis of the theoretical knowledge acquired at university, while also enhancing their qualifications and developing their professional skills.

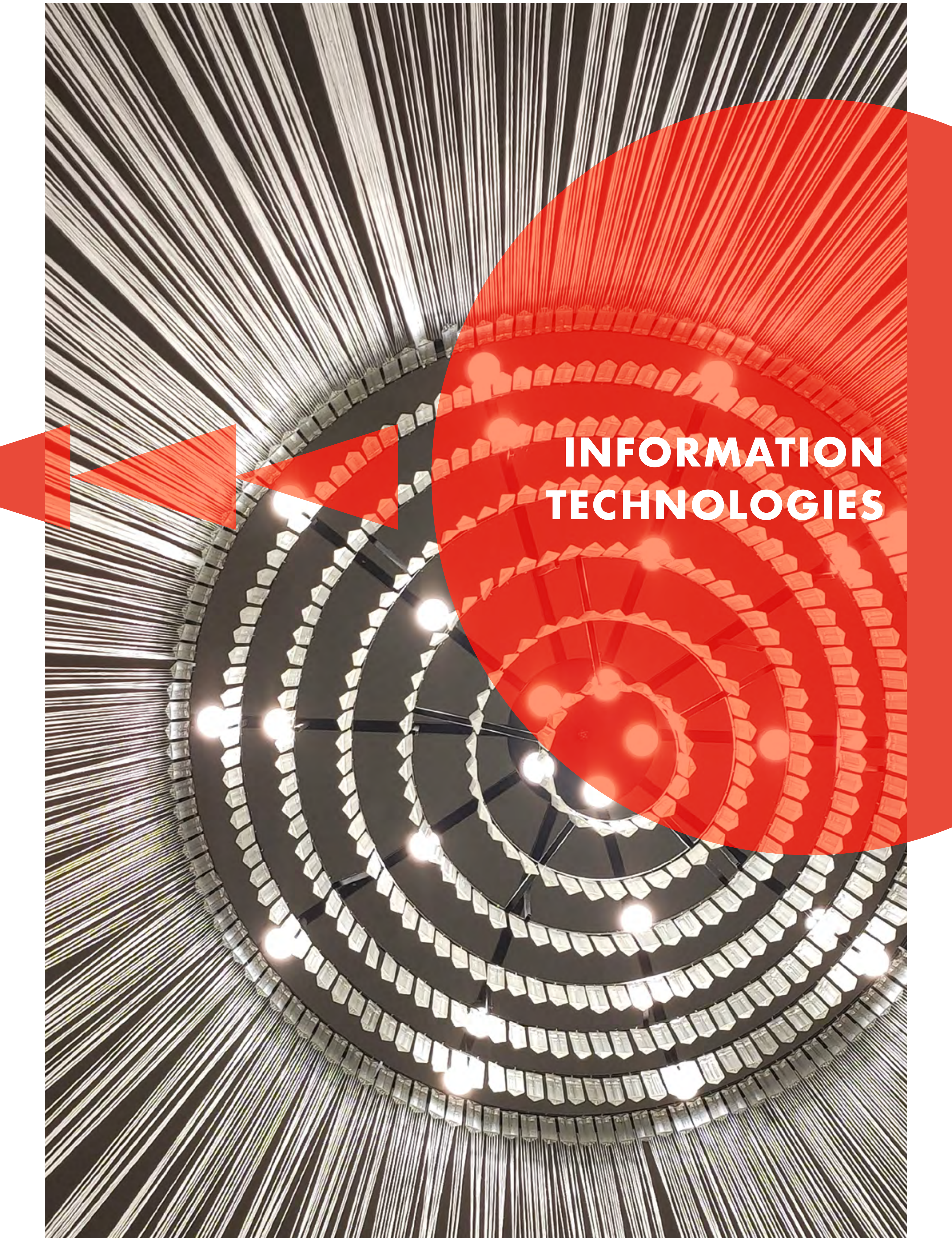
- In order to actively involve young people in the internship programme, the company routinely cooperates with the country's higher education institutions and regularly conducts informative meetings with students, including those in the regions. It should also be noted that last year a memorandum of cooperation was signed with four different universities.

- The company participated in six job fairs organised by local and international organisations in 2022.

- During the year, the company paid special attention to the remuneration of employees in the branch network, which notably affects their motivation and loyalty to the company. To this end, the bonus and remuneration systems were upgraded for 11 positions. In total, 299 employees benefited from this improvement.

- Outdoor educational meetings were held for employees, during which the best candidates were identified and awarded – with certificates of merit presented to 45 employees.

INFORMATION TECHNOLOGIES



Photographer: Achi Gegenava

One core strategic goal for the company is to transform into a microbank. Accordingly, in 2022, Crystal continued to take steps on this path with the development of the main operational and credit system, and the introduction of new services, software and products. The digital transformation strategy was moreover updated, a long-term plan was defined, and all projects and processes required for digital transformation were agreed upon.

The basic software, new projects, and the core system were each regularly updated and adjusted to the regulations. Several major infrastructural improvements and optimisations were additionally implemented. The development of business continuity processes and the testing of several critical systems were also successfully undertaken.

Information Technology Infrastructure and Operations

During the first half of 2022, new server hardware was purchased and installed, resulting in improved service delivery performance and greater quality of business continuity. The company has been actively working on hybrid cloud systems and fairly significant improvements were made in this direction throughout 2022 – namely, the necessary services have been migrated to the cloud and hybrid architecture. The systems have also been optimised and costs reduced.

The company's service desk and several important infrastructural processes were updated over the year. A software monitoring project was employed within the company; through which the number of incidents in one critical area was reduced by 95%. The server infrastructure necessary for the development of information technology was successfully executed, and the migration and optimization of servers between data centers was carried out.

Project Management and Business Analysis

In 2022, the company successfully implemented up to 45 projects of various degrees – including a new corporate website and Crystal chatbot; the implementation of a new AML and compliance management system; migration to the new version of Credit Info; the introduction of a promissory note product; loan issuance by tablet; and the delivery of a transaction module for cash transactions, and many others.

The steps taken in terms of process automation are equally worth noting. Up to 20 different business processes have been improved, digitised and automated. Our instalment and loan platform has been significantly improved and upgraded, making it even more convenient, efficient and secure. Many changes and projects have been implemented towards Crystal Leasing's core system, allowing us to optimise the system's user experience and introduce further innovations.

Furthermore, the project management methodology has been reviewed, the portfolio management process has been implemented, and project management approaches have been updated and streamlined. In addition, training was provided to the IT team to raise awareness of the Agile methodology.

Information System Security

Modern tools and standards have been introduced and adapted, thus increasing the level of information security. Testing, support and implementation for the new information security solutions and software are also regularly carried out.

The information security awareness programme has been improved, which included specific training for all staff and target groups. Testing for the entire staff was carried out and several attack simulations were thereafter conducted.

A risk assessment was carried out in terms of business processes. The risks identified were assessed and action plans were prepared. All procedures, policies and standards relating to information security have been reviewed and improved. The existing documents were subsequently amended, and new documents were prepared.

In 2022, Disaster Recovery Plans (DRP) for Critical Infrastructure were prepared. Several scenarios were tested under real-life conditions as part of these activities. Penetration tests were employed on various critical infrastructures and the scope of the vulnerability scanning process was extended.

Software Development

Significant efforts were made to improve and develop the systems implemented within the company. Of particular note is the development and enhancement of the loan platform, which acts as one of the company's strategic objectives. The loan processing system was improved; with development and refinement of the decision-making system, the Akido digital platform, ensuring automation of the loan issuance process and acceleration of the entire process. Several projects were also undertaken to ensure compliance with the regulatory requirements.

Technical and versioning updates of critical services and software were carried out periodically, bringing them in line with regulations. Architectural changes were also completed and certain services were migrated.

The business intelligence system was refined and developed. While the new core system was adapted to the company's regulatory and internal reporting needs.

Software Quality Assurance

Multiple iterations of numerous solutions implemented in the company have been carried out, including full testing of the operational and lending system. From a software quality management perspective, initiation of the testing automation process is considered a significant achievement. The introduction of such automation into the software development lifecycle ensures rapid product completion (Time to Market) and minimises the risk of errors. The most important goal of the business line is to implement automation in the company within 2023.

GOVERNANCE STATEMENT

It is our responsibility to present this annual report and to provide the shareholders with audited financial statements. We consider the annual report and the accounts, taken as a whole, to be fair, balanced and understandable, and to provide the necessary information for shareholders to assess the company's position, performance, business model and its strategy.


Photographer: Achi Gegenava

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 (see Annex 1).

The governance statement is an integral part of this report, as it describes the key aspects of corporate governance and highlights all major accomplishments and plans.

Board Composition
In 2022, Crystal undertook a global search for independent members of the Board, which resulted in the appointment of three new independent non-executive directors; making the number of independent members four, against the three members representing founding shareholders and investors. The selection was based on clearly defined criteria, based on a skills matrix, as developed by the Supervisory Board. The new members brought, amongst other benefits, relevant banking, fintech and strategic HR expertise.

Delegation of Authorities
Delineation of the supervisory and executive functions were codified and made transparent as a result of thedevelopment and approval of the Chart of Authorities. This provided clarity on the functions of each governance unit vis-à-vis major corporate decisions. Such decision processes were designed in consideration of the best corporate governance practices, those which comply with the Corporate Governance Code for Commercial Banks of Georgia.

Board Organisation and Materials
The Supervisory Board adopted an annual rolling agenda, which encapsulates recurring board decisions and ensures the best use of the Board's resources and time.

With the active involvement of the SB and support from Nestor Advisors, the corporate governance consultants, Crystal made substantial improvements to the quality of management reports and other board and committee materials. With minor exceptions, the terms defined under the submission of materials by the management were wholly observed.

Furthermore, the SB strengthened the budgeting process and established a novel routine for financial forecasts.

Committees
Ahead of banking transformation, Crystal adjusted its committee structure to the best available banking practices. We reduced the number of SB committees from six to four. Please read each brief report provided below by the respective committee Chairs for further information.

In addition, committee mandates were renewed to ensure collaboration between the Audit and Risk Committees. The composition of the committees was altered, contributing towards their independence and better use of SB resources. In previous years, all members of the SB were involved in every SB committee. As required by the Corporate Governance Code for Commercial Banks of Georgia, independent chairs have since been elected in charge of the effective and impartial functioning of the Risk Committee, the Audit Committee, and the Human Resource, Compensation and Remuneration Committee.

In line with best banking standards, Crystal decided to reposition the ALCO (the Assets and Liabilities Committee) from the SB to the Management Team. This change will be implemented on securing the banking license. While the ALCO's functions will be handled by the Management Team, some of the decisions, concerning assumption of liabilities, incurring large expenses and defining the key risk parameters, will be delegated to the Risk Committee and the Supervisory Board.

Corporate Secretary
Crystal strengthened the role of the Corporate Secretary, which is now fulfiled by a dedicated and experienced member of staff. Capacity building and training support was secured for CoSec, whose main role is to support the Supervisory Board and Management Team by ensuring adherence to those corporate governance principles subscribed to by Crystal.

Senior Independent Director
To balance the fact that the Chair of Supervisory Board is also the founder and largest individual shareholder, the Board created the role of Senior Independent Director. This role is responsible for avoiding and eliminating any potential conflict of interest (COI), while also acting as Deputy to the SB Chair and providing support to the Chair in the delivery of Board objectives. The SID also assumes the role of the SB Chair in situations where the Chair has an existing or potential COI.

Strategy and Policies
The SB has adopted bylaws for developing and reviewing the corporate strategy. An off-site meeting was thus arranged with the participation of the SB and extended Management Team. To support the process, the SB created an ad hoc Steering Committee on Strategy and Banking Transformation. As a result, Crystal developed its 2023-2025 corporate strategy, including the bank transformation roadmap. Several SB level policies, mainly concerning risk governance, have been adopted in line with requirements from the National Bank of Georgia.

ESG Developments
Crystal received technical assistance from Finance in Motion/EFSE/GGF to strengthen its environmental and social performance and its risk management.

An environmental and social impact measurement exercise is being conducted to evaluate the E&S outcomes Crystal produced in 2022. The findings of which will be available in the Crystal Sustainability Report 2022.

To fulfil the corporate governance recommendations by Nestor Advisors, the SB instituted an ad hoc committee on the Corporate Governance Development Program (CGDP). In 2022, the CGDP Committee completed 21 recommendations regarding every aspect of Crystal’s corporate governance.

Evaluation
The SB conducted the annual self-evaluation for assessing the work of the Chair, the Board collectively, individual members and the committees. The outcomes were communicated to members and reflected in the skills matrix and training plan. The annual appraisal also extended to the Corporate Secretary, the Head of Internal Audit and members of the Management Team. The last external evaluation of the Board was conducted by the governance consultants Nestor Advisors in 2021, and the next external SB evaluation is pending in 2024.

Plans
In 2023, we plan fulfilment of the outstanding recommendations issued by Nestor Advisors, such as strengthening AML and compliance; setting the second line of defence in information security; enhancing the whistle blowing mechanism; and revamping the system for related-party transactions. The banking transformation and adoption of remaining policies as well as amendments to the Charter and Shareholders’ Agreement will be a priority.

Finally, after the adoption of a corporate strategy, the Board’s latest priority is an assessment of execution capacity and capabilities, hiring for critical management roles, as well as setting up an adequate performance management plan for the entire organisation and a succession planning framework for critical roles.

In conclusion, I would like to thank my colleagues on the Supervisory Board, the Management Team, the Head of the Internal Audit Department and their team, the Corporate Secretary and our external advisors for their support, diligence and professionalism.

Sincerely,
Archil Bakuradze
Chair of the Supervisory Board

SUPERVISORY BOARD

Crystal is headed by the Supervisory Board, which collectively is responsible for the long-term success of the company.

The Supervisory Board consists of seven members, including four independent directors and three members representing the founding shareholders and investors. The directors together bring extensive experience in business development, corporate governance, banking and microfinance, fintech, innovation and expertise in strategic HR.

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 and ensuring its effectiveness in all 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. He serves as Chair of the Board of Crystal Fund and participates in the governance of several non-profit institutions. The Chair spends more than half of his time working with Crystal, and his role and responsibilities are regulated via respective policies and are each approved by the 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 the SB. Upon the recommendation of the Board, the shareholders approve the Chair's remuneration and any changes thereof.

BOARD COMPOSITION

Crystal uses a Supervisory Board policy and procedure to clearly define its respective mandate, role, and responsibilities and to regulate its activities. It sets forth procedures, communication rules and it provides guidance on the management of conflict of interests, as well as the rules regarding the appointment and resignation of its members.

The SB members include (in alphabetical order): George Arveladze (Georgia), independent member and Senior Independent Director (SID), who chairs the Steering Committee on Strategy and Banking Transformation; Jan Dewijngaert (Belgium), appointed by Incofin IM; Lilit Gharayan (Armenia), independent member, who chairs the Internal Audit Committee; Matangi Gowrishankar (India), independent member, who chairs the Human Resources and Remuneration Committee; Robert Scott Kossmann (USA), independent member, who chairs the Risk Committee; and Aleem Remtula (USA), appointed by DWM, who chairs the Environmental and Social Committee;Suma Swaminathan, alternate member from DWM (USA).

Activities of the Supervisory Board

In 2022, the Supervisory Board met twelve times, once in-person and eleven times remotely. The number of each SB committee meeting in 2022 is as follows:

- Internal Audit Committee 3
- ALCO (Assets and Liabilities) Committee 6
- Risk Committee 2
- E&S Committee 1
- Human Resources and Remuneration Committee 2
- Ad hoc CGDP Committee 6
- Steering Committee on Strategy and Banking Transformation 3

The SB receives a detailed quarterly report on the company's key performance indicators, including a statement on its financial position. In addition, the Board reviews a quarterly risk report. The SB committees examine detailed reports and discuss matters within their competences. The SB moreover conducts regular reviews for the implementation of strategic annual milestones. Ultimately, the key focus of the SB is to ensure the effective supervision and governance of the company. Therefore, resolutions made by the SB concern strategic issues, the overall organizational structure, board-level policies, large-scale projects, motivation and performance appraisals for Chief Officers, approval of annual milestones, financial forecasts and recommending relevant actions to shareholders, such as the distribution of dividends, the composition of the Board or the issuance of new shares for the management incentive plan.

Photographer: Achi Gegenava

Crystal's corporate governance contributes to fulfilment of the company's mission and its long-term strategy. The role of the Supervisory Board is to assess, on an annual basis, the achievement of the corporate strategy and to reflect on the targets of the following year's strategic milestones. Every Chief Officer is assigned a set of primary and secondary strategic milestones, which form an important basis for their variable compensation. These milestones are subsequently delegated to the business or structural units and translated into action plans to be measured by key performance indicators. The central aim of effective corporate governance is to ensure that the Crystal Board maintains its customer centric and people-oriented approach. As such, the Board commissions customer satisfaction, and staff engagement surveys. Finally, the Social Committee reviews its social impact assessment on an annual basis. Crystal has a stringent policy for managing conflicts of interest, regulated by SB rules and procedures and by 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 – Archil Bakuradze 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 also a member of its board. He is the Chair on the Board of Crystal Fund and serves on the boards of several non-profit organizations. Through the Chevening Scholarship, offered by 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).

George Arveladze

SID – George Arveladze holds the position of SID on the JSC MFO Crystal Supervisory Board and at present heads Crystal's Steering Committee on Strategy and Banking Transformation. Mr. Arveladze is a Georgian businessman with 20 years of extensive experience in banking. Prior to his entrepreneurial involvement in the Georgian real estate, transportation, and energy sectors, he served as Managing Director at TBC, the largest bank in Georgia, covering the non-interest income, research, and brokerage businesses within its Corporate and Investment Banking arm. Prior to joining TBC, Mr. Arveladze worked as CEO of Liberty Bank, Georgia's third largest retail bank, with more than 5,300 employees and over 650 branches throughout the country, which he led since 2013 – delivering c.200% net profit as cumulative annual growth in two years, proving an impressive and strong performance. Prior to his appointment as Liberty CEO, Mr. Arveladze served as Deputy CEO in charge of Strategic Projects, Treasury and Private Banking (2009-2011), and as Deputy CEO and Chief Operating Officer (2011-2013). Before returning to Georgia in 2009, he worked in structured product sales at BNP Paribas in London. Prior to which, he worked at the National Bank of Georgia. Mr. Arveladze holds an MBA from London Business School.

Jan Dewijngaert

Member – Jan Dewijngaert is Director Private Equity at Incofin Investment Management. He has broad Private Equity experience in acquiring, managing, and selling equity stakes in a wide variety of sectors, having executed more than 70 investments and exits in Europe and Asia. He acted as a Managing Partner, Managing Director and member of the Investment Committee within various private equity funds and is currently member of the Investment Committee of a newly established water equity fund. Mr. Dewijngaert also has extensive board experience in multiple sectors and countries. Currently, besides his role at Crystal, he acts as a board member at Lovcen Banka (Montenegro) and Bank Arvand (Tajikistan).

Lilit Gharayan

Independent Member – Lilit Gharayan is a financier and has been a member of Crystal's Supervisory Board since July 2018. She currently heads Crystal's Audit Committee. She has extensive experience in leadership as well as holding a consultancy role 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 also a graduate of the ProCredit Management Academy and a member of ACCA.

Matangi Gowrishankar

Independent Member – Ms. Matangi Gowrishankar has over four decades of experience in senior leadership roles in business and HR, both in India and overseas. She currently heads Crystal's Human Resources and Remuneration Committee. She has experience across diverse industries and with leading multinational corporations – Standard Chartered Bank, Reebok, GE, and Cummins Inc. Most recently she was with BP plc (British Oil & Gas major), where her last role was as Global Head of Capability Development (downstream businesses) and Director of the Global Leadership Academy. Matangi is an experienced Independent Director and currently sits on several boards in India, within numerous industries ranging from financial services, IT, and manufacturing. A career business and human resources professional, Matangi also has an independent Executive Coaching and Human Resources Consulting practice. She holds deep expertise in business processes and throughout the full spectrum of Human Resources and Organization Development practice areas. She holds a BA in sociology and a post-graduate degree in Personnel Management and Industrial Relations from XLRI, Jamshedpur, a premier Indian business school. She is passionate about building high-performance teams and is actively involved in coaching and mentoring top leaders across several organizations.

Robert Kossmann

Independent Member – Robert Kossmann is a well-traveled, internationally experienced banker with 33 years of retail and SME banking experience who has worked in 13 different countries throughout Central and Eastern Europe. He currently heads Crystal's Risk Committee. He has spent the last 16 years working in Raiffeisen Bank International; from 2004 to 2020 as Deputy Chairman of the Board for Retail/SME banking in Raiffeisen Bank Aval Ukraine, and as the Head of SME Risk in Vienna, Austria. In addition to being responsible for Retail and SME banking, Robert was CIO and COO for three years. Prior to working at Raiffeisen, he was a Senior Developmental Banker working with the World Bank, EBRD, ADB and USAID on restructuring large financial institutions. Robert is currently active as a Fintech Angel Investor and Advisor & Mentor to multiple startups in Ukraine.

Aleem Remtula

Member – Aleem Remtula is a partner and the Head of Private Equity for Developing World Markets (DWM) and has been a Crystal Board member and shareholder representative for DWM 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 global experience in venture capital and private equity impact investing. He holds an MBA from Harvard Business School and a bachelor's degree in economics and finance from Princeton University.

Suma Swaminathan

Alternative Member – As Vice President of Private Equity at Developing World Markets (DWM), Suma Swaminathan has been an alternative Board member since 2020 – 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 via 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.

Nino Metreveli

Corporate Secretary – Nino Metreveli joined JSC MFO Crystal as EA to the Chairman in 2018. She started her career as a teacher and translator, and now Nino has almost 20 years of experience working in various fields, 18 of which were within financial institutions. From 2019, she joined Crystal Fund as the project officer (PO)in the USAID-funded YES-Georgia Program. Nino has strong expertise in teaching, managing administrative units, the working cycle of the BOD, SB and related committees, and liaising in projects. Between 2008-2015, she was Head of the Secretariat and Corporate Secretary in Constanta Bank. From 2015-2018, she worked in TBC Bank's Marketing Department, maintaining a tight professional crossover with PR and MSME. Nino has university degree in English language philology and is specialised in PR.

MANAGEMENT TEAM (Board of Directors)

Ilia Revia

Chief Executive Officer – Ilia Revia 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 in 1998, moving into IT Project Management for a US Law firm in 2001-2006, and TBC Bank in 2007-2009. Joining the Bank of Georgia in 2009, he rose to position of Deputy Chief Information Officer and managed several complex programs, including the acquisition of PrivatBank Georgia and Agile transformation. In 2019 he was appointed as MFO Crystal's CEO. Ilia is a certified Project Management Professional (PMP) with graduate degrees in Project Management from George Washington University and in IT and Business Innovation from Jšnkšping University in Sweden, alongside an undergraduate Mathematics degree from the Georgian Technical University.

Davit Bendeliani

Chief Financial Officer – Davit Bendeliani is Crystal's CFO. From August 2004 to 2011, he served as the Financial Manager for Crystal Fund. Prior to which, from April 1997 to July 2004, he managed the finance of CHCA. 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 programmes.

Melania Kutchukhidze

Chief Business Officer – Melania Kutchukhidze is the Chief Business Officer of MFO Crystal. She is an established senior executive and management expert, with 18 years of leadership experience in the financial sector. Melania is a certified business coach. During 2005-2006, she was a local consultant for EBRD while in 2006-2010, she served as Head of Retail and Small Business Development at VTB Bank Georgia. During 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. After her two-year role as Commercial Director for the Lisi Green Urban Project in 2016-2018, she joined Crystal in 2018 as Head of Network Management. 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 People Officer – Manuchar Chitaishvili is Crystal's 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.

Beka Tsitskishvili

Chief Information Officer – Beka Tsitskishvili has been serving as the Chief Information Officer since 2018. Prior to which, he was the CIO of the Adjara Group. Mr Tsitskishvili has 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 (Giga) Megeneishvili

Chief Risk Officer – Giga has held 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. Giga is a certified Risk Manager, certified International Microfinance Manager (Frankfurt School of Finance and Management) and holds a BA in Economics from Akaki Tsereteli Kutaisi State University.

Kakha Gabeskiria

CEO, JSC Crystal Leasing – Kakha Gabeskiria joined the 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 as CEO of Crystal Leasing, a subsidiary of MFO Crystal. Mr Gabeskiria has 20 years of experience in the MSME sector, holding managerial positions at ProCredit Bank. He holds a BA in Economics from the Georgian Institute of Subtropical 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 – Giorgi Janelidze is the Chief Executive Officer of Crystal Consulting. Over the last nine years he has been working at MFO Crystal in different positions, and he is currently developing as an executive in business consulting. Since 2008, Giorgi has been working in non-governmental organisations and the private sector. He has a background in Microfinance, Marketing, IT, Project Management and in the MSE sector. Giorgi has also scaled up several startups from business idea to final product. By education, he is an IT specialist, a certified Project Manager and a Digital Marketologist. Giorgi holds a Master's degree in IT and Economics and is currently progressing with his PhD.

The Assets and Liability Committee (ALCO)

The ALCO, including its Chair (the Chair of ALCO), members of the SB, the CEO, the CFO, and the CBO, convenes monthly. 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 macroeconomic indicators, market share analyses 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.

Sessions conducted in 2022: 6.
Key issues discussed and resolved:

- Financial results.
- Financial plan.
- Budget parameters.
- Portfolio quality.
- Credit resources and financing.

The Environmental and Social Committee

Committee Chair's Letter

Dear Shareholders and Stakeholders,

We are pleased to report that 2022 was an impactful year for Crystal and for Crystal's Environmental and Social (E&S) Committee. Under the able leadership of Maya Kobalia, Head of the company's E&S Department, Crystal demonstrated significant gains in supporting youth and women entrepreneurs in the country. Amidst persistent gender gaps in economic participation in Georgia, which have only been exacerbated following the pandemic, Crystal and its staff were proud to support personal development and economic empowerment by training nearly 1,300 women entrepreneurs across the country through participation in Buzz Georgia – an initiative operating under the auspices of the USAID YES-Georgia Program and in partnership with the Women's Global Development and Prosperity (W-GDP) Initiative. Crystal remains committed to providing technical and financial support to underwrite further development of these inspirational women changemakers.

In addition to this critical impact on female beneficiaries, Crystal was also proud to engage in multiple partnerships to drive forward its organizational commitment to building a robust sustainability and green finance framework, alongside a strong social impact measurement approach. We'd like to acknowledge continued support from our local and international partners, without whom these initiatives would not have been possible, including:

- *EFSE / Green for Growth Fund / Finance in Motion (Strengthening Environmental and Social Management System).*
- *German Sparkassenstiftung and Prof. Dr Tobias Peylo (Green Finance/ Sustainability Assessment).*
- *Developing World Markets (DWM) and MSC MicroSave Consulting (Climate Action).*
- *Proparco and 60 Decibels (Social Impact Measurement).*

I'm optimistic about what the future holds and look forward to what Crystal will achieve in 2023 and the coming years.

Sincerely,
Aleem Remtula

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 the Supervisory Board focus on environmental and social responsibility.

Sessions conducted in 2022: 1.

Key issues discussed and resolved:

- Current projects and activities.
- Environmental impact assessments.
- Environmental and social management and recommendations.

The HR, Compensation and Remuneration Committee

Committee Chair's Letter

Dear Shareholders and Stakeholders,

We thank you for your continued support of team Crystal. The year under review continued to see high employee turnover both in the front line and in the more specialized technical areas. Throughout the year we hired a total of 395 people. Of these, 273 were replacements and 122 in new roles. Our total headcount, including contractors, stood at 1,171 (1,051 FTE, 120 contractors) at the end of the year. The Management Team and Supervisory Board recognize that attrition is a key risk area and are taking the necessary steps to address this issue. Actions include both financial and non-financial measures to attract and retain our employees. The focus is on building a talent pipeline through a successful internship program, training and development in new skills and providing opportunities for our talented staff. We are pleased to report that in 2022 23% of all open positions were filled through internal job postings. We are beginning to see a slowdown in the attrition rates, and we continue to work on this. We are also focusing on improving the overall productivity of our employees to ensure operational efficiencies and we have initiated a few key initiatives, like Sales Force Effectiveness and a refreshed performance management system, in support of this. The team is also focusing on digitizing key HR processes to provide speed and effectiveness in the implementation of people processes. We are working hard to have an organization ready for the banking transformation.

Sincerely,
Matangi Gowrishankar

Sessions conducted in 2022: 2
Key issues discussed and resolved:

- Selection of and shareholder approval for the three new Non-Executive Independent Directors added to the Supervisory Board – duly approved by the shareholders in the meetings held on 19 April 2022 and 18 November 2022.
- Redesign of the performance management process to be introduced in 2023.
- Design of a robust evaluation process for the performance of the SB, CEO and Chief Officers.
- Identification of actions to be taken for the attraction and retention of high-quality staff.
- Review and approval of organisational structural changes as needed to support the business.

The HR, Compensation and Remuneration Committee is responsible for overseeing and providing the direction for the overall HR strategy to support business continuity through our people. Additionally, the Committee focuses on the remuneration and performance evaluation of the Chief Officers to ensure equitable and appropriate reward mechanisms. The primary focus of the Committee is also to encourage the management to have a robust succession planning process in place to be reviewed at least twice a year by Committee members and subsequently by the Supervisory Board. The Committee is also accountable for establishing the process of selecting new Supervisory Board members and ensuring that this selection is carried out fairly and in accordance with the Charter and the Shareholder Agreement. The Committee is moreover responsible for assessing the proper functioning of the Supervisory Board and recommending actions for improvement if needed.

The Internal Audit Committee

Committee Chair's Letter

Dear Shareholders and Stakeholders,

Due to the geopolitical and macroeconomic uncertainties triggered by the war in Ukraine, the audit committee intensified efforts targeted at strengthening the internal control environment of the institution. During 2022, the Audit Committee took additional measures directed at strengthening the methodological framework of the internal control system and specifically internal control function. In addition, the cooperation between other committees (e.g., the Risk Management Committee) was intensified.

In 2023, the Committee will work on further strengthening the internal control environment of the institution, as well as making its functioning more efficient and effective.

Sincerely,
Lilit Gharayan

The purpose of the Audit Committee is to provide a structured, systematic oversight of the organization's governance, risk management and internal control practices. The Committee assists the Board and Management by providing advice and guidance on the adequacy of organizational initiatives for:

1. Values and ethics.
2. Governance structure.
3. Internal control frameworks.
4. Oversight of internal audit activities, external auditors, and other providers of assurance.
5. Financial statements and public accountability reporting.

In broad terms, the Audit Committee reviews each of the items noted above and provides the Board with independent advice and guidance regarding the adequacy and effectiveness of the Management's practices and any potential improvements to those practices.

Sessions conducted in 2022: 3.
Key issues discussed and resolved:

- Audit results.
- Updated report on deficiencies found during the audit process.
- Annual internal audit plan.
- Review and approval of audit policies and procedures.

The Risk Committee
Committee Chair's Letter

Dear Shareholders and Stakeholders,

2022 was impacted by challenges due to tail-end of COVID-19 and the uncertain macroeconomic conditions brought on by the war in Ukraine. The Committee closely oversaw actions to manage and mitigate them. The Committee also carefully monitored both every day and more strategic, non-traditional emerging risks in full coordination with the Board and other committees. We remain focused on mid-term strategic risks that could ultimately compromise Crystal's business and risk profile. The strategy meeting which we held in June 2022 served as another forum to examine and debate relevant emerging risks, new areas of business and market segments in the wake of the impact of the war on the Georgian economy and on Crystal. The Committee will pay close attention to these risks and remain closely vigilant of any that emerge in the future to ensure they are properly and evenly managed in daily operations.

Sincerely,
Robert Kossmann

The primary purpose of the Committee is to provide an objective review and oversight across the Group for all categories of risk, while also setting risk appetite and ensuring an appropriate risk framework. Specifically, the Committee assists the Supervisory Board in overseeing risk across the entire Group and it coordinates with the other Supervisory Board committees which have primary oversight for certain types of risk. To strengthen the governance of the Committee, it consists of three independent non-executive directors who form the majority. The Committee has ultimately been established to assist the Supervisory Board in discharging its responsibilities on a range of matters relating to the oversight and the review of:

- The governance of risks impacting the Group.
- The design, implementation and operation of the comprehensive Risk Management Framework and the Risk Management approach.
- Monitoring risk appetite and assessing both the overall risk profile of the Group and material types of risk.
- Monitoring the effectiveness of the compliance management framework impacting material risk types.
- Risk culture and behaviors.

In September 2022, a new independent non-executive director was appointed as the new Risk Committee Chair, and in December a new Risk Committee Charter was approved by the Board.

During the first meeting of the new Risk Committee, the Management presented its new Risk Management Framework, alongside the main principles of Credit Risk Management, AML and Compliance, Operational Risk Management, and the Risk Management KPIs and Risk Appetite Indicators. Decisions were thereafter made to start a new collections project and to update the Credit Policy and Risk Appetite documents to support the organization in 2023.

Sessions conducted in 2022: 2.
Key issues discussed and resolved: 45

- Establishing a new Risk Management Framework.
- Overview of Risk Management Indicators and monitoring of triggers.
- Impact of the Credit Policy and Risk Appetite on the organization.
- Improving KYC, AML, and Compliance functions.
- Overview of the end-to-end collection function.
- Stress testing risk management models, including liquidity and capital.

Ilia Revia
Chief Executive Officer
May 25, 2023

Archil Bakuradze
Chair of the Supervisory Board
May 25, 2023

FINANCIAL STATEMENTS

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS, MANAGEMENT REPORT AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2022

Photographer: Achi Gegenava

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS AND MANAGEMENT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2022

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, 2022 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, 2022 were authorized for issue on May 25, 2023 by the Board of Directors of the Group.

Ilia Revia	Archil Bakuradze
Chief Executive Officer	Chair of the Supervisory Board
May 25, 2023	May 25, 2023

Deloitte & Touche LLC
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Tbilisi, 0171, Georgia

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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 at December 31, 2022, 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 statement 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 December 31, 2022, and its consolidated and separate financial performance and its 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 Financial Statements* section of our report. We are independent of the Group 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 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.

Deloitte.

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

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 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 to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 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 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 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 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 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, 2022 is prepared in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing;
- The management report for the year ended December 31, 2022 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, 2022 is consistent, in all material respects, with the consolidated and separate financial statements for the year ended December 31, 2022.

Tamar Natsvlishvili
on behalf of Deloitte and Touche LLC

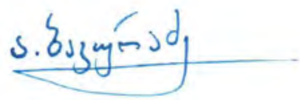
May 25, 2023
Tbilisi, Georgia

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2022
(in thousands of Georgian Lari)

	Notes	2022	2021
Interest income	6	107,853	95,124
Interest expense	6	(36,288)	(31,744)
Net interest income before impairment losses on interest bearing assets		**71,565**	**63,380**
Impairment losses on interest bearing assets	13,14,18	(6,606)	(2,693)
Net interest income		**64,959**	**60,687**
Net loss on financial assets and liabilities at fair value through profit or loss	12	(17,389)	(4,620)
Net foreign exchange gain/(loss)	7	5,547	(7,853)
Net Fee and commission income	8	1,436	442
Other income		356	580
Net non-interest expenses		**(10,050)**	**(11,451)**
Operating income		**54,909**	**49,236**
Personnel expenses		(29,780)	(26,506)
Depreciation and amortization expenses	15,16,17	(6,850)	(6,759)
Other operating expenses	9	(10,636)	(9,788)
Profit before income tax		**7,643**	**6,183**
Income tax benefit/(expense)	10	232	(3,003)
Net profit for the year		**7,875**	**3,180**
Other comprehensive income		-	-
Total comprehensive income for the year		**7,875**	**3,180**

Ilia Revia
Chief Executive Officer
May 25, 2023



Archil Bakuradze
Chair of the Supervisory Board
May 25, 2023

The notes on pages 71-125 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, 2022
(in thousands of Georgian Lari)

	Notes	2022	2021
Interest income	6	107,853	95,124
Interest expense	6	(36,288)	(31,744)
Net interest income before impairment losses on interest bearing assets		**71,565**	**63,380**
Impairment losses on interest bearing assets	13,14,18	(6,606)	(2,693)
Net interest income		**64,959**	**60,687**
Net loss on financial assets and liabilities at fair value through profit or loss	12	(17,389)	(4,620)
Net foreign exchange gain/(loss)	7	5,549	(7,854)
Net Fee and commission income	8	1,436	442
Other income		121	353
Net non-interest expenses		**(10,283)**	**(11,679)**
Operating income		**54,676**	**49,008**
Personnel expenses		(29,491)	(26,347)
Depreciation and amortization expenses	15,16,17	(6,796)	(6,735)
Other operating expenses	9	(10,612)	(9,785)
Profit before income tax		**7,777**	**6,141**
Income tax benefit/(expense)	10	232	(3,003)
Net profit for the year		**8,009**	**3,138**
Other comprehensive income		-	-
Total comprehensive income for the year		**8,009**	**3,138**

Ilia Revia
Chief Executive Officer
May 25, 2023

Archil Bakuradze
Chair of the Supervisory Board
May 25, 2023

The notes on pages 71-125 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2022
(in thousands of Georgian Lari)

	Notes	December 31, 2022	December 31, 2021
ASSETS			
Cash and cash equivalents	11	27,812	19,127
Financial assets at fair value through profit or loss	12	-	103
Loans to customers	13	388,795	347,941
Net investments in leases	14	9,841	5,662
Property and equipment	15	3,972	4,277
Right-of-use assets	16	8,152	8,295
Intangible assets	17	4,147	4,494
Assets held for sale		197	-
Current income tax asset	10	699	-
Deferred tax assets	10	3,305	1,699
Other assets	18	6,336	4,581
Total assets		**453,256**	**396,179**
LIABILITIES			
Financial liabilities at fair value through profit or loss	12	8,032	188
Borrowed funds	19	356,499	314,405
Lease liability	16	8,121	9,127
Dividends payable	21	997	996
Current income tax liability	10	-	1,124
Other liabilities	20	12,534	10,144
Total liabilities		**386,183**	**335,984**
EQUITY			
Share capital	21	3,635	3,635
Share premium	21	22,110	22,110
Retained earnings		41,328	34,450
Total equity		**67,073**	**60,195**
Total liabilities and equity		**453,256**	**396,179**

Ilia Revia
Chief Executive Officer
May 25, 2023

Archil Bakuradze
Chair of the Supervisory Board
May 25, 2023

The notes on pages 71-125 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2022
(in thousands of Georgian Lari)

	Notes	December 31, 2022	December 31, 2021
ASSETS			
Cash and cash equivalents	11	27,785	19,102
Financial assets at fair value through profit or loss	12	-	103
Loans to customers	13	388,795	347,941
Net investments in leases	14	9,841	5,662
Property and equipment	15	3,968	4,271
Right-of-use assets	16	8,152	8,295
Intangible assets	17	4,035	4,330
Assets held for sale		197	
Current income tax asset	10	699	-
Deferred tax assets	10	3,305	1,699
Other assets	18	6,336	4,581
Investment in a subsidiary		340	272
Total assets		**453,453**	**396,256**
LIABILITIES			
Financial liabilities at fair value through profit or loss	12	8,032	188
Borrowed funds	19	356,499	314,405
Lease liability	16	8,121	9,127
Dividends payable	21	997	996
Current income tax liability	10	-	1,124
Other liabilities	20	12,520	10,144
Total liabilities		**386,169**	**335,984**
EQUITY			
Share capital	21	3,635	3,635
Share premium	21	22,110	22,110
Retained earnings		41,539	34,527
Total equity		**67,284**	**60,272**
Total liabilities and equity		**453,453**	**396,256**

Ilia Revia
Chief Executive Officer
May 25, 2023

Archil Bakuradze
Chair of the Supervisory Board
May 25, 2023

The notes on pages 71-125 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2022
(in thousands of Georgian Lari)

	Notes	Share capital	Share premium	Retained earnings	Total
January 1, 2021		**3,635**	**22,110**	**32,266**	**58,011**
Total comprehensive loss for the year		-	-	3,180	3,180
Dividends declared	21	-	-	(996)	(996)
December 31, 2021		**3,635**	**22,110**	**34,450**	**60,195**
Total comprehensive income for the year		-	-	7,875	7,875
Dividends declared	21	-	-	(997)	(997)
December 31, 2022		**3,635**	**22,110**	**41,328**	**67,073**

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SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2022
(in thousands of Georgian Lari)

	Notes	Share capital	Share premium	Retained earnings	Total
January 1, 2021		**3,635**	**22,110**	**32,385**	**58,130**
Total comprehensive loss for the year		-	-	3,138	3,138
Dividends declared	21	-	-	(996)	(996)
December 31, 2021		**3,635**	**22,110**	**34,527**	**60,272**
Total comprehensive income for the year		-	-	8,009	8,009
Dividends declared	21	-	-	(997)	(997)
December 31, 2022		**3,635**	**22,110**	**41,539**	**67,284**

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May 25, 2023

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May 25, 2023

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CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2022
(in thousands of Georgian Lari)

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		7,643	6,183
Adjustments for:			
Net loss on financial assets and liabilities at fair value through profit or loss		17,389	4,620
Depreciation and amortization expenses	15, 16, 17	6,850	6,759
Interest income	6	(107,853)	(95,124)
Interest expenses	6	36,288	31,744
Impairment losses on interest bearing assets		6,606	2,693
Net foreign exchange (gain)	7	(20,846)	(7,569)
Loss on disposal of property and equipment		17	3
Gain on lease cancellations		(5)	(9)
Cash outflow from operating activities before changes in operating assets and liabilities		**(53,911)**	**(50,700)**
Changes in operating assets and liabilities:			
Net (increase) in financial assets/net increase in financial liabilities at fair value through profit or loss		(8,905)	(2,110)
Increase in loans to customers		(44,894)	(36,529)
Decrease / (increase) in investments in leases		2,943	(3,500)
Increase in assets held for sale		(197)	-
(Increase) / decrease in other assets		(2,241)	61
Increase in other liabilities		2,345	8,291
Net changes in operating assets and liabilities		**(50,989)**	**(33,787)**
Interest received		98,364	96,975
Interest paid		(34,823)	(31,459)
Income tax paid		(3,197)	(5)
Net cash used in operating activities		**(44,516)**	**(18,976)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	15	(1,739)	(1,127)
Purchases of intangible assets	17	(955)	(2,989)
Proceeds from sale of property and equipment		142	190
Net cash used in investing activities		**(2,552)**	**(3,926)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowed funds	19	238,304	185,290
Repayments of borrowed funds	19	(175,210)	(143,177)
Repayments of debt security		-	(12,407)
Repayments of lease liabilities	16	(3,560)	(3,521)
Dividends paid	21	(996)	(999)
Net cash generated from financing activities		**58,538**	**25,186**
Net increase in cash and cash equivalents		**11,470**	**2,284**
Effect of exchange rate changes on the balance of cash held in foreign currencies		(2,785)	(1,041)
Cash and cash equivalents as at the beginning of the year	11	19,127	17,884
Cash and cash equivalents at the end of the year	11	**27,812**	**19,127**

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May 25, 2023

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SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2022
(in thousands of Georgian Lari)

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/ before income tax		7,777	6,141
Adjustments for:			
Net loss on financial assets and liabilities at fair value through profit or loss		17,389	4,620
Depreciation and amortization expenses	15, 16, 17	6,796	6,735
Interest income	6	(107,853)	(95,124)
Interest expenses	6	36,288	31,744
Impairment losses on interest bearing assets		6,606	2,693
Net foreign exchange (gain)	7	(20,848)	(7,568)
Loss on disposal of property and equipment		17	3
Gain on lease cancellations		(5)	(9)
Cash outflow from operating activities before changes in operating assets and liabilities		**(53,833)**	**(50,765)**
Changes in operating assets and liabilities:			
Net (increase) in financial assets/net increase in financial liabilities at fair value through profit or loss		(8,905)	(2,110)
Increase in loans to customers		(44,894)	(36,529)
Decrease / (increase) in investments in leases		2,943	(3,500)
Increase in assets held for sale		(197)	-
Increase in other assets		(2,241)	(54)
Increase in other liabilities		2,359	8,293
Net changes in operating assets and liabilities		**(50,935)**	**(33,900)**
Interest received		98,364	96,975
Interest paid		(34,823)	(31,459)
Income tax paid		(3,197)	(5)
Net cash used in operating activities		**(44,424)**	**(19,154)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in a subsidiary		(68)	(26)
Purchases of property and equipment	15	(1,741)	(1,126)
Purchases of intangible assets	17	(979)	(2,804)
Proceeds from sale of property and equipment		142	190
Net cash used in investing activities		**(2,646)**	**(3,766)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowed funds	19	238,304	185,290
Repayments of borrowed funds	19	(175,210)	(143,177)
Repayments of debt security		-	(12,407)
Repayments of lease liabilities	16	(3,560)	(3,521)
Dividends paid	21	(996)	(999)
Net cash generated from financing activities		**58,538**	**25,186**
Net increase/(decrease) in cash and cash equivalents		**11,468**	**2,266**
Effect of exchange rate changes on the balance of cash held in foreign currencies		(2,785)	(1,041)
Cash and cash equivalents as at the beginning of the year	11	19,102	17,877
Cash and cash equivalents as at the end of the year	11	**27,785**	**19,102**

Ilia Revia
Chief Executive Officer
May 25, 2023

Archil Bakuradze
Chair of the Supervisory Board
May 25, 2023

The notes on pages 71-125 form an integral part of these consolidated and separate financial statements.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022
(in thousands of Georgian Lari)

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, 2022 the Group has fifty branches (2021: fifty branches) around Georgia and the head offices are located in Tbilisi and Kutaisi.

As at December 31, 2022 and 2021 the following shareholders owned the Group:

	December 31,2022	**December 31, 2021**
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%	0.09%
Individual shareholders	48.79%	48.79%
Total	**100%**	**100%**

As at December 31, 2022 and 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%, respectively.

The Group is registered in Georgia and maintains its accounting records in accordance with Georgian law. 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.

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.

Due to overall financial results of the Group as at and for the year ended December 31, 2022, Group is compliant with covenants. During the 2022, 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 2022, requesting them to issue corresponding waivers. In all cases, the corresponding waivers were obtained in a timely manner before the end of 2022. 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 confirm that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the 12 months from the date the approval of these financial statements. *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 , 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.

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.

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

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, 2022	**December 31, 2021**
GEL/1 US Dollar	2.7020	3.0976
GEL/1 Euro	2.8844	3.5040

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.

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 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.

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

On January 1, 2023, important changes in the Tax Code of Georgia came into force. Certain changes were made to the regime of taxation of banking institutions, credit unions, microfinance organizations, lending entities, including determining of the standards of accounting of the interest income and reserves for the potential losses. According to other important changes:

- The object of profit tax for commercial banks, credit unions, microfinance organizations, and loan issuers is the difference between gross income received during the calendar year and deductions stipulated under the Tax Code.
- Commercial banks, credit unions and microfinance organizations will recognize interest accrued on loans as income and deduct reserves for possible loan losses from gross income according to IFRS.
- The corporate income tax rate for commercial banks, credit unions, microfinance organizations, and loan issuers is 20%.
- Dividends issued by commercial banks, credit unions, insurance organizations, microfinance organizations, and loan issuers from 2023 profits and subsequent periods are not taxed at the source of payment and should not be included in the gross income of the recipient of dividends.

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. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available 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.

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, 2022 and 2021.

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.

Critical accounting judgements and key sources of estimation uncertainty

3

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 is the critical judgment, 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.

CLASSIFICATION OF FINANCIAL ASSETS

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. *Details of the financial assets classification are set out in Note 2.*

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

REPOSSESSED ASSETS VALUATION

All repossessed assets is measured at the lower of cost or net realisable value. The Group performs regular internal and external valuations to make sure that the carrying amount is not higher than the net realisable value. Valuations are based on available information on market prices, for repossessed real estate on market prices per square meter.

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.

4 Reclassification of prior year consolidated and separate financial statements

During 2022, the Group reclassified Net foreign currency trading income/(expense) from "Net fee and commission income" to "Net foreign exchange gain/(loss)". Considering nature of those operations such presentation is more appropriate and would increase understandability and clarity of the Group's audited consolidated and separate annual financial statements.

The presentation of comparative figures has been adjusted to conform to the presentation of the current period amounts. Effects of reclassification on the consolidated and separate financial statements as at 31 December 2021 and for the year then ended were as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	As previously reported	Reclassification	Final presentation
Net foreign exchange gain/(loss)	7,569	(15,422)	(7,853)
Net Fee and commission income/(expense)	(14,980)	15,422	442

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	As previously reported	Reclassification	Final presentation
Net foreign exchange gain/(loss)	7,568	(15,422)	(7,854)
Net Fee and commission income/(expense)	(14,980)	15,422	442

5 Amendments to IFRSs 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, 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS 3 Reference to the Conceptual Framework

The Group has adopted the amendments to IFRS 3 Business Combinations for the first time in the current year. The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Amendments to IAS 16 Property, Plant and Equipment–Proceeds before Intended Use

The Group has adopted the amendments to IAS 16 Property, Plant and Equipment for the first time in the current year. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

Amendments to IAS 37 Onerous Contracts–Cost of Fulfilling a Contract

The Group has adopted the amendments to IAS 37 for the first time in the current year. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle

The Group has adopted the amendments included in the Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle for the first time in the current year. The Annual Improvements include amendments to four standards.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

IFRS 9 Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements.

New Accounting Pronouncements

At the date of authorisation of these 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 (including the June 2020 and December 2021 amendments to IFRS 17)	Insurance Contracts
Amendments to IFRS 10 and IAS 28	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 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

Net interest income

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	2022	2021
INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST RATE METHOD:		
Loans to customers	97,596	89,517
Cash and cash equivalents	92	54
Investments in leases	3,371	1,245
Other income	2,028	1,088
	103,087	**91,904**
OTHER INTEREST INCOME:		
Penalty income	4,766	3,220
Total interest income on financial assets measured at amortised cost	**107,853**	**95,124**
INTEREST EXPENSES		
Borrowed funds	(35,677)	(30,822)
Debt securities issued	-	(157)
Lease liability	(611)	(765)
	(36,288)	**(31,744)**
Net interest income	**71,565**	**63,380**

Net foreign exchange gain/(loss)

7

	2022	2021
Net foreign exchange gain/(loss)	20,846	7,569
Net foreign currency trading expense	(15,299)	(15,422)
Net foreign exchange gain/(loss)	**5,547**	**(7,853)**

Net fee and commission income

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	2022	2021
FEE AND COMMISSION INCOME		
Other loan-related services	1,058	158
Money transfers	649	541
Utility payments	42	41
Other commission income	61	-
	1,810	**740**
FEE AND COMMISSION EXPENSE		
Other commission expense	(374)	(298)
	(374)	**(298)**
Net fee and commission income	**1,436**	**442**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

9 Other operating expenses

	2022	2021
Utilities and communication	1,828	1,694
Software technical support and maintenance	1,309	1,581
Consumables and office supplies	870	698
Legal and other professional services	802	695
Bank charges	741	741
Insurance	685	443
Membership fees	659	642
Expense related to short-term leases and low-cost items	483	166
Fuel and transportation	453	262
Marketing and advertising	415	421
Taxes other than on income	318	692
Business trips	280	104
Repairs and maintenance	210	186
Security	180	184
Loss on irrecoverable other assets	177	310
Personnel training and recruitment	145	79
Charity	80	-
Other	1,001	890
	10,636	**9,788**

10 Taxation

	2022	2021
Current year tax expense	1,374	2,074
	1,374	**2,074**
Movement in deferred tax assets and liabilities due to origination or/and reversal of temporary differences	(1,606)	929
Total income tax (benefit)/expense	**(232)**	**3,003**

The applicable Income tax rate is 15% for the years ended December 31, 2022 and 2021. As already discussed in Note 2, from 2023, income tax rate applicable will increase to 20%.

RECONCILIATION OF EFFECTIVE TAX RATE FOR THE YEAR ENDED 31 DECEMBER:

	2022	2021
Profit / (Loss) before tax	**7,643**	**6,183**
Income tax at the statutory rate (2022: 15%; 2021: 15%)	1,146	927
Unrecognized deferred tax	-	871
Effect of change in tax legislation	(1,528)	-
Tax effect of permanent differences	150	1,205
Total income tax (benefit)/expense	**(232)**	**3,003**

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, 2022 and 2021.

On December 2022, the Parliament of Georgia cancelled previously announced transition to "Estonian model" for banking and microfinance sector. Also from 2023 statutory tax rate of corporate taxation changed from 15% to 20%. In 2022, the revised tax rate has been extended to all assets and liabilities except for related to loans, which resulted in deferred tax asset increase by GEL 657 thousand.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

Movements in temporary differences during the years ended 31 December 2022 and 2021 are presented as follows:

	January 1, 2022	Recognized in profit or loss	Effect of change in tax legislation	December 31, 2022
Loans to customers	1,544	(256)	1,364	2,652
Property and equipment	63	(19)	15	59
Right-of-use assets	-	(1,222)	(408)	(1,630)
Intangible assets	119	72	64	255
Loans and borrowings	(312)	296	(5)	(21)
Lease liability	125	1,093	406	1,624
Other liabilities	160	114	92	366
Net deferred tax asset	**1,699**	**78**	**1,528**	**3,305**

	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	160
	2,628	**(929)**	**1,699**

Cash and cash equivalents 11

	December 31, 2022	December 31, 2021
Cash on hand	14,212	13,502
Bank balances	13,600	5,625
Total cash and cash equivalents	**27,812**	**19,127**

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, 2022 and 2021 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).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

Financial assets and liabilities at fair value through profit or loss

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	December 31, 2022	December 31, 2021
Financial assets at fair value through profit or loss		
Derivative financial assets		
Currency swap contracts	-	103
Financial assets at fair value through profit or loss	**-**	**103**

	December 31, 2022	December 31, 2021
Financial liabilities at fair value through profit or loss		
Derivative financial liabilities		
Foreign currency forward contracts	-	185
Currency swap contracts	8,032	3
Financial liabilities at fair value through profit or loss	**8,032**	**188**

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

As at December 31 2022 and December 31 2021 net loss on financial assets and liabilities at fair value through profit or loss of GEL 17,389 thousand and GEL 4,620 thousand, respectively, represent the net impact of these deals on the Groups' earnings. The amounts include transactions costs, i.e. any fee or interest these hedging instruments have as well as the effect of adjustments to bring them to their fair value.

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;
- 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

The table below summarizes the undiscounted contractual amounts outstanding at December 31, 2022 and 2021 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, 2022	**December 31, 2021**
SELL USD BUY GEL		
Less than 3 months	-	180,854
Between 3 and 12 months	134,830	-
	134,830	**180,854**
SELL USD BUY EUR		
Less than 3 months	2,162	-
	2,162	**-**
SELL GEL BUY CHF		
Less than 3 months	-	2,026
	-	**2,026**

13 Loans to customers

	December 31, 2022	**December 31, 2021**
Principal	390,322	351,943
Accrued interest	12,235	9,998
Less: expected credit losses	(13,762)	(14,000)
Total loans to customers	**388,795**	**347,941**
ANALYSIS BY PRODUCTS GROUPS:		
Micro business loans	94,596	71,869
Agricultural loans	81,955	68,052
Consumer loans	75,165	54,469
Fast instalment loans	47,571	48,879
SME loans	44,775	53,424
Pawnshop loans	36,006	37,025
Housing loans	22,489	28,223
Total loans to retail customers	**402,557**	**361,941**
Less: expected credit losses	(13,762)	(14,000)
Loans to customers	**388,795**	**347,941**

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, 2022:

	Gross carrying amount	**Loss allowance**	**Carrying amount at amortised cost**
LOANS TO RETAIL CUSTOMERS:			
Micro business loans	94,596	(2,699)	91,897
Agricultural loans	81,955	(6,091)	75,864
Consumer loans	75,165	(1,648)	73,517
Fast instalment loans	47,571	(371)	47,200
SME loans	44,775	(2,473)	42,302
Pawnshop loans	36,006	(139)	35,867
Housing loans	22,489	(341)	22,148
Total loans to customers	**402,557**	**(13,762)**	**388,795**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

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

	Gross carrying amount	Loss allowance	Carrying amount at amortised cost
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
Fast instalment loans	48,879	(956)	47,923
SME loans	53,424	(3,113)	50,311
Pawnshop loans	37,025	(96)	36,929
Housing loans	28,223	(268)	27,955
Total loans to customers	**361,941**	**(14,000)**	**347,941**

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

	2022			
	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	**3,090**	**3,306**	**7,604**	**14,000**
New loans originated	6,525	-	-	6,525
Transfer to 12-month ECL	136	(136)	-	-
Transfer to lifetime ECL not credit-impaired	(4,855)	5,776	(921)	-
Transfer to lifetime ECL credit-impaired	-	(5,090)	5,090	-
Repaid loans	(1,685)	(554)	(794)	(3,033)
Sold loans	(15)	(247)	7,692	7,430
Written off for the year	(2)	(74)	(8,232)	(8,308)
Recoveries of previously written off	26	97	3,222	3,345
Changes due to change in credit-risk	1,152	215	(8,275)	(6,908)
Interest income correction	-	-	711	711
Balance at the end of the year	**4,372**	**3,293**	**6,097**	**13,762**

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

	2022			
	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	**288,704**	**61,406**	**11,831**	**361,941**
New loans originated	242,446	-	-	242,446
Transfer to 12-month ECL	1,221	(1,221)	-	-
Transfer to lifetime ECL not credit-impaired	(43,329)	45,492	(2,163)	-
Transfer to lifetime ECL credit-impaired	-	(8,529)	8,529	-
Repaid loans	(166,208)	(27,030)	(8,845)	(202,083)
Sold loans	(1,033)	(1,335)	7,659	5,291
Written off for the year	(2)	(74)	(8,232)	(8,308)
Recoveries of previously written off	26	97	3,222	3,345
Foreign exchange loss	(60)	(13)	(2)	(75)
Balance at the end of the year	**321,765**	**68,793**	**11,999**	**402,557**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

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

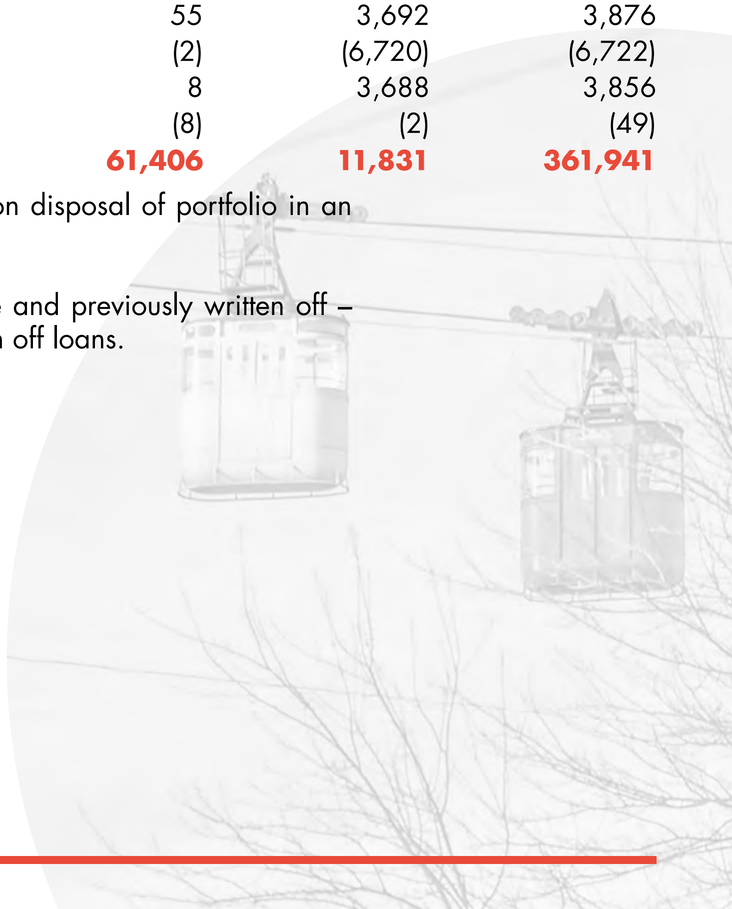
	2021			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL – not credit- impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	**3,636**	**3,295**	**6,515**	**13,446**
New loans originated	5,576	-	-	5,576
Transfer to 12-month ECL	326	(326)	-	-
Transfer to lifetime 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**

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)	(39,539)	(6,230)	(188,750)
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**

Impairment allowance for the year ended 2022 includes loss on disposal of portfolio in an amount of GEL 9,696 thousand.

Sold loans for the year 2022 include disposal of both – active and previously written off – loans, where sold loans for 2021 only refer to the sale of written off loans.



NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

14 Net investments in leases

The following table provides information by investment sector as at December 31, 2022:

	Gross carrying amount	Loss allowance	Carrying amount
INVESTMENTS IN LEASES:			
Construction	3,215	(94)	3,121
Trade	1,364	(12)	1,352
Consumer	1,312	(19)	1,293
Transportation and logistics	1,054	(21)	1,033
Service	1,026	(13)	1,013
Agriculture	708	(39)	669
Manufacturing	654	(6)	648
Beauty and healthcare	546	(7)	539
Real estate development	117	(1)	116
Tourism	27	(1)	26
Science and education	11	-	11
HoReCa	4	-	4
Other	16	-	16
Total investments in leases	**10,054**	**(213)**	**9,841**

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
Trade	717	(32)	685
Consumer	241	(1)	240
Transportation and logistics	718	(11)	707
Service	1,089	(29)	1,060
Agriculture	553	(3)	550
Manufacturing	452	(3)	449
Beauty and healthcare	484	(6)	478
Real estate development	44	(3)	41
Tourism	35	-	35
Science and education	-	-	-
HoReCa	13	-	13
Other	89	(1)	88
Total investments in leases	**5,766**	**(104)**	**5,662**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

Property and equipment

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	Buildings	Vehicles	Furniture	IT equipment	Leasehold improvements	Other	Total
COST							
at January 1, 2022	105	1,189	1,340	5,116	6,577	4,166	18,493
Additions	-	5	58	1,223	263	190	1,739
Disposals	-	-	(20)	(251)	(279)	(94)	(644)
at December 31, 2022	**105**	**1,194**	**1,378**	**6,088**	**6,561**	**4,262**	**19,588**
ACCUMULATED DEPRECIATION							
at January 1, 2022	(49)	(904)	(1,134)	(3,001)	(5,559)	(3,569)	(14,216)
Depreciation for the year	(4)	(115)	(118)	(777)	(549)	(322)	(1,885)
Eliminated on disposals	-	-	20	100	273	92	485
at December 31, 2022	**(53)**	**(1,019)**	**(1,232)**	**(3,678)**	**(5,835)**	**(3,799)**	**(15,616)**
CARRYING AMOUNT							
At December 31, 2022	**52**	**175**	**146**	**2,410**	**726**	**463**	**3,972**
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**

Other property and equipment mainly consists of security systems and generators. As at December 31, 2022 and December 31, 2021 fully depreciated items represented GEL 11,364 thousand and GEL 9,489 thousand, respectively. There are no capitalized borrowing costs related to the acquisition or construction of property and equipment during the years ended December 31, 2022 and 2021.

Right-of-use assets and Lease liabilities

16

	Buildings and Offices	Vehicles	Total
COST			
Balance at 1 January 2022	14,010	1,483	15,493
Additions	2,564	65	2,629
Cancellations	-	(106)	(106)
Modification of leases	997	-	997
Balance at 31 December 2022	**17,571**	**1,442**	**19,013**
DEPRECIATION			
Balance at 1 January 2022	(6,245)	(953)	(7,198)
Depreciation for the year	(3,401)	(262)	(3,663)
Balance at 31 December 2022	**(9,646)**	**(1,215)**	**(10,861)**
Carrying amount At 31 December 2022	**7,925**	**227**	**8,152**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

	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**

Movements in lease liabilities in 2022 and 2021 were as follows:

	2022	2021
Balance at 1 January	9,127	12,522
Additions	2,629	688
Cancellations	(111)	(116)
Modifications	997	52
Interest expense	611	765
Foreign exchange (gain) / loss	(897)	(486)
Repayment of lease interest	(675)	(777)
Repayment of lease principal	(3,560)	(3,521)
Total	**8,121**	**9,127**

Weighted average lease term for the right-of-use assets as of December 31, 2022 and December 31, 2021 is 4.4 and 4.6 years respectively and the weighted average lessee's incremental borrowing rate applied to the lease liabilities as of December 31, 2022 and December 31, 2021 is 8.1% and 7.7% respectively.

Lease Liability	**December 31, 2022**	**December 31, 2021**
Maturity analysis	**Amounts payable under finance leases**	**Amounts payable under finance leases**
Year 1	3,862	4,206
Year 2	2,612	3,315
Year 3	1,799	1,492
Year 4	330	532
Year 5	288	222
Onwards	226	418
Less: future interest	(996)	(1,058)
Total lease Liability	**8,121**	**9,127**

Amounts recognised in profit and loss	**2022**	**2021**
Depreciation expense	(3,663)	(3,647)
Interest expense	(611)	(765)
Foreign exchange gain / (loss)	897	486
Expenses related to short-term leases and low-cost items	(483)	(166)
Gain on lease cancellations	5	9
Total	**(3,855)**	**(4,083)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

17 Intangible assets

	Intangible assets
COST	
at 1 January 2021	**4,945**
Additions	2,989
at December 31, 2021	**7,934**
Additions	955
at December 31, 2022	**8,889**
ACCUMULATED AMORTIZATION	
at January 1, 2021	**(2,334)**
Amortization for the year	(1,106)
at December 31, 2021	**(3,440)**
Amortization for the year	(1,302)
at December 31, 2022	**(4,742)**
CARRYING AMOUNTS	
At December 31, 2021	**4,494**
At December 31, 2022	**4,147**

Intangible assets consist of software and licenses, including internally developed software in an amount of GEL 757 thousand (2021: GEL 596 thousand).

18 Other assets

	December 31, 2022	December 31, 2021
Other receivables	2,774	2,220
VAT receivable	1,020	-
Less: expected credit losses	(142)	(164)
Total other financial assets	**3,652**	**2,056**
Prepayments	1,122	1,085
Repossessed assets	1,277	1,305
Inventory	149	135
Net assets to be leased out	136	-
Total other non-financial assets	**2,684**	**2,525**
Total other assets	**6,336**	**4,581**

19 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, 2022	December 31, 2021
Loans from financial institutions	342,923	298,847
Subordinated debt	13,576	15,558
Total borrowed funds	**356,499**	**314,405**

	December 31, 2022	December 31, 2021
Principal	350,280	309,715
Interest accrued	6,219	4,690
Total borrowed funds	**356,499**	**314,405**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

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

	December 31, 2022	December 31, 2021
NON-CURRENT LIABILITIES		
Borrowed funds	187,293	178,693
CURRENT LIABILITIES		
Borrowed funds	169,206	135,712
Total borrowed funds	**356,499**	**314,405**

Subordinated debt

As at December 31, 2022 and December 31, 2021 subordinated debt is unsecured loan received from an international financial organization, Bank Im Bistum Essen EG, maturing in 2025 amounting to GEL 5,435 thousand and GEL 6,228 thousand, with annual interest rate of 9%.

As at December 31, 2022 and 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 8,141 thousand and 9,330 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	Carrying Amount	Carrying Amount
Unsecured loans from financial institutions	GEL	11.50% – 16.50%	2022 – 2027	211,955	138,051
Unsecured loans from financial institutions	USD	2.48% – 9.31%	2022 – 2026	130,968	160,796
Unsecured subordinated debt	USD	7.80% – 9.00%	2025 – 2027	13,576	15,558
Total borrowed funds				**356,499**	**314,405**

Reconciliation of changes arising from financing activities

	January 1, 2022	Receipt of loans during the year 2022	Repayment of loans during the year 2022	Interest accrual during the year 2022	Interest paid during the year 2022	Foreign exchange loss during the year 2022	December 31, 2022
Borrowed funds	314,405	238,304	(175,210)	35,677	(34,148)	(22,529)	**356,499**

	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**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

Unused credit line facilities

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.

In July 2022 the Group signed a credit line agreement with JSC Bank of Georgia with an available facility of GEL 10,000 thousand expiring in 2023.

In September 2022 the Group signed a credit line agreement with JSC Bank of Georgia with an available facility of GEL 6,250 thousand expiring in 2023.

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 2022. The Group notified all counterparties and obtained the waiver letters and/or managed to amend the requirements to more suitable limits, prior to year-end 2022. As a result, the respective liabilities are not immediately repayable.

20 Other liabilities

	December 31, 2022	December 31, 2021
Payments received for future installment	7,300	6,520
Payables to suppliers	3,191	2,420
Accruals for employee compensation	1,672	924
Payables to customers	321	128
Total other financial liabilities	**12,484**	**9,992**
Taxes other than on income	29	6
Other non-financial liabilities	21	146
Total other non-financial liabilities	**50**	**152**
Total other liabilities	**12,534**	**10,144**

As at December 31 2022 and December 31 2021 Payments received for future installment of GEL 7,300 thousand and GEL 6,520 thousand, respectively, represent payments made by the customers, that are intended to cover their respective loan obligations, however based on clients' decision and preference, are made a short while early, compared to their contractual schedules. The Group keeps such early repayments on its transit account – as its liability towards customers – until an actual scheduled repayment date and doesn't target them towards loan repayment immediately, so that the customers are not charged with the early repayment penalties. The amounts are always settled within a month and are included in the earliest liquidity buckets.

As at December 31 2022 and December 31 2021 payables to customers of GEL 321 thousand and GEL 128 thousand, respectively, represent loan repayments in access of clients' actual outstanding exposures. The amounts remain as the Group's liability towards customers for 3 years post loan closure, during which the amounts can be requested any time and are subject to immediate repayment. After a 3-year period, the amounts are recognized in Group's earnings.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

21 Share capital and reserves

Share capital

Share capital as at December 31, 2022:

Shareholder	Number of shares	Common/ non-redeemable preference	Share %	Voting rights	Capital GEL'000
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, 2021:

Shareholder	Number of shares	Common/ non-redeemable preference	Share %	Voting rights	Capital GEL'000
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**

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, 2022 and December 31, 2021.

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 997 thousand and GEL 996 thousand were declared for the years 2022 and 2021, 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.

Contingencies

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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.

Georgia's financial sector continued to grow in 2022, compared to 2021, 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 the previous years.

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 somewhat been affected in 2021 and not at all in 2022.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

23 Related party transactions

Control relationships

As at December 31, 2022 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, 2022 and 2021 is as follows:

	2022	2021
Salaries and bonuses	1,458	1,166
Consulting fees	539	512
	1,997	**1,678**

Other related party transactions

	Fee and commission expenses 2022	Fee and commission expenses 2021	Other liabilities as of December 31, 2022	Other liabilities as of December 31, 2021
Other				
JSC Mobile Finance Services – Georgia*	360	298	-	1
	360	**298**	**-**	**1**

** JSC Mobile Finance Services – Georgia is owned by three members of Supervisory Board of the Group.*

These expenses represent 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 360 thousand (2021: GEL 298 thousand). The other kind of expenses related to software development and service integration fees have not been incurred since 2020, due to completion of the respective works.

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.

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

	Fair value hierarchy	December 31, 2022		December 31, 2021	
		Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	Level 1	27,812	27,812	19,127	19,127
Loans to customers	Level 3	388,795	397,757	347,941	352,884
Net investments in leases	Level 3	9,842	9,842	5,662	5,662
Other financial assets	Level 3	3,652	3,652	2,056	2,056
Borrowed funds	Level 3	356,499	356,662	314,405	314,166
Lease liability	Level 3	8,121	8,121	9,127	9,127
Other financial liabilities	Level 3	12,484	12,484	9,992	9,992

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, 2022	Fair value as at December 31, 2021	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	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	8,032	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.

Capital management

25

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

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 (2022: 16%; 2021: 14%).

The below table discloses the compliance with NBG CAR ratio as at December 31, 2022 and December 31, 2021. Basis of calculation are NBG rules and guidelines, as issued and monitored by the regulator, rather than IFRSs:

	2022	**2021**
Share capital	3,635	3,635
Share premium	22,110	22,110
Retained earnings	50,506	47,307
Eligible subordinated debt	8,646	13,010
Regulatory capital before reductions	**84,897**	**86,062**
Less intangible assets	(3,689)	(3,970)
Less investment in a subsidiary	(340)	(273)
Regulatory capital	**80,868**	**81,819**

	2022	**2021**
Total assets before reductions	455,036	403,946
Less intangible assets	(3,689)	(3,970)
Less investment in a subsidiary	(340)	(273)
Total assets after reductions	**451,007**	**399,703**

	December 31, 2022	**December 31, 2021**
Capital adequacy ratio *	17.93%	20.47%

The Group also monitors its capital adequacy levels to comply with debt covenants, calculated in accordance with the lenders requirements. *See Note 19 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

* Not audited

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, 2022 and 2021, 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

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.

The table below summarizes the principal macroeconomic indicators included in the economic scenarios used at December 31, 2022 for the years 2023 to 2025, for Georgia:

	2023	2024	2025
GDP GROWTH			
Base scenario	4.0	5.5	5.0
Upside scenario	6.0	5.0	5.0
Downside scenario	2.0	4.0	5.0
INFLATION RATE			
Base scenario	5.3	3.1	3.0
Upside scenario	5.0	3.0	3.0
Downside scenario	9.0	6.0	3.0
MONETARY POLICY INTEREST RATE			
Base scenario	9.6	8.0	7.2
Upside scenario	8.5	7.0	7.0
Downside scenario	13.5	10.5	7.5
NOMINAL EFFECTIVE EXCHANGE RATE			
Base scenario	320.8	320.8	320.8
Upside scenario	325.6	325.6	325.6
Downside scenario	288.7	297.4	306.3

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

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, 2022, 10% increase/(decrease) in average PD per each segment results in ECL increase/(decrease) by 6.2% that represents GEL 763/(763) thousand.

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.

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, 2022, 10% increase/(decrease) in average LGD per each segment results in ECL increase/(decrease) by 10.0% that represents GEL 1,236/(1,236) thousand.

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.

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

CREDIT QUALITY OF LOANS TO CUSTOMERS

The following tables provide information on the credit quality of loans to customers as at December 31, 2022:

Analysis by product group:	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 %
SME LOANS							
Not overdue	43,364	(217)	(846)	(851)	(1,914)	41,450	4%
1 to 30 days overdue	294	-	(25)	(46)	(71)	223	24%
31 to 60 days overdue	148	-	(11)	(29)	(40)	108	27%
61 to 90 days overdue	233	-	(47)	(20)	(67)	166	29%
91 to 180 days overdue	736	-	-	(381)	(381)	355	52%
Over 180 days overdue	-	-	-	-	-	-	0%
Total SME loans	**44,775**	**(217)**	**(929)**	**(1,327)**	**(2,473)**	**42,302**	**6%**
HOUSING LOANS							
Not overdue	22,387	(67)	(117)	(132)	(316)	22,071	1%
1 to 30 days overdue	59	-	-	(2)	(2)	57	3%
31 to 60 days overdue	5	-	(2)	-	(2)	3	40%
61 to 90 days overdue	13	-	(7)	-	(7)	6	54%
91 to 180 days overdue	25	-	-	(14)	(14)	11	56%
Over 180 days overdue	-	-	-	-	-	-	0%
Total housing loans	**22,489**	**(67)**	**(126)**	**(148)**	**(341)**	**22,148**	**2%**
AGRICULTURAL LOANS							
Not overdue	79,301	(2,928)	(918)	(1,059)	(4,905)	74,396	6%
1 to 30 days overdue	556	(1)	(96)	(33)	(130)	426	23%
31 to 60 days overdue	411	-	(89)	(62)	(151)	260	37%
61 to 90 days overdue	452	-	(102)	(63)	(165)	287	37%
91 to 180 days overdue	1,235	-	-	(740)	(740)	495	60%
Over 180 days overdue	-	-	-	-	-	-	0%
Total agricultural loans	**81,955**	**(2,929)**	**(1,205)**	**(1,957)**	**(6,091)**	**75,864**	**7%**
MICRO BUSINESS LOANS							
Not overdue	91,543	(706)	(376)	(474)	(1,556)	89,987	2%
1 to 30 days overdue	619	(1)	(41)	(55)	(97)	522	16%
31 to 60 days overdue	436	-	(46)	(37)	(83)	353	19%
61 to 90 days overdue	463	-	(110)	(24)	(134)	329	29%
91 to 180 days overdue	1,535	-	-	(829)	(829)	706	54%
Over 180 days overdue	-	-	-	-	-	-	0%
Total micro business loans	**94,596**	**(707)**	**(573)**	**(1,419)**	**(2,699)**	**91,897**	**3%**
FAST INSTALMENT LOANS							
Not overdue	46,083	(131)	(8)	(6)	(145)	45,938	0%
1 to 30 days overdue	274	-	(4)	(2)	(6)	268	2%
31 to 60 days overdue	170	-	(9)	(2)	(11)	159	6%
61 to 90 days overdue	230	-	(24)	(5)	(29)	201	13%
91 to 180 days overdue	814	-	-	(180)	(180)	634	22%
Over 180 days overdue	-	-	-	-	-	-	0%
Total fast instalment loans	**47,571**	**(131)**	**(45)**	**(195)**	**(371)**	**47,200**	**1%**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

Analysis by product group:	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	35,505	-	(2)	(89)	(91)	35,414	0%
1 to 30 days overdue	424	-	-	(26)	(26)	398	6%
31 to 60 days overdue	77	-	-	(22)	(22)	55	29%
61 to 90 days overdue	-	-	-	-	-	-	0%
91 to 180 days overdue	-	-	-	-	-	-	0%
Over 180 days overdue	-	-	-	-	-	-	0%
Total pawn shop loans	**36,006**	**-**	**(2)**	**(137)**	**(139)**	**35,867**	**0%**
CONSUMER LOANS							
Not overdue	72,756	(321)	(217)	(311)	(849)	71,907	1%
1 to 30 days overdue	749	-	(32)	(65)	(97)	652	13%
31 to 60 days overdue	408	-	(64)	(24)	(88)	320	22%
61 to 90 days overdue	316	-	(100)	(14)	(114)	202	36%
91 to 180 days overdue	936	-	-	(500)	(500)	436	53%
Over 180 days overdue	-	-	-	-	-	-	0%
Total consumer loans	**75,165**	**(321)**	**(413)**	**(914)**	**(1,648)**	**73,517**	**2%**
Total loans to customers	**402,557**	**(4,372)**	**(3,293)**	**(6,097)**	**(13,762)**	**388,795**	**3%**

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

Analysis by product group:	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 %
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%**
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%**

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Analysis by product group:	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 %
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%**
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%**

During the years ended December 31, 2022 and 2022, 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 to lifetime expected credit losses. Therefore, there are no loans with modified contractual cash flows transferred to Stage 1 from Stage 2 or Stage 3.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

ANALYSIS OF COLLATERAL AND OTHER CREDIT ENHANCEMENTS

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

	December 31, 2022	% of loan portfolio	December 31, 2021	% of loan portfolio
Loans with no collateral	291,728	75%	261,339	75%
Loans with collateral	97,067	25%	86,602	25%
Total	**388,795**	**100%**	**347,941**	**100%**

	December 31, 2022	December 31, 2022	December 31, 2022	December 31, 2022
Type of collateral	**Gross carrying amount**	**ECL**	**Carrying amount**	**Collateral Fair Value**
Real estate	66,286	(3,377)	62,909	219,936
Precious metals	16,712	(22)	16,690	19,668
Movable property	17,763	(295)	17,468	32,945
Non-collateralized	301,796	(10,068)	291,728	-
Total	**402,557**	**(13,762)**	**388,795**	**272,549**

	December 31, 2021	December 31, 2021	December 31, 2021	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**

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, 2022 and 2021, 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 18.*

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (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, 2022							
ASSETS							
Cash and cash equivalents	6,051	-	-	-	-	21,761	27,812
Loans to customers	98,341	46,808	83,835	157,477	2,334	-	388,795
Net investments in leases	68	142	747	8,804	80	-	9,841
Other financial assets	3	8	45	928	14	2,654	3,652
	104,463	**46,958**	**84,627**	**167,209**	**2,428**	**24,415**	**430,100**
LIABILITIES							
Financial liability at fair value through profit or loss	-	-	8,032	-	-	-	8,032
Borrowed funds	73,146	30,130	65,930	187,293	-	-	356,499
Lease liability	863	879	1,611	4,565	203	-	8,121
Dividends payable	-	-	997	-	-	-	997
Other financial liabilities	-	-	-	-	-	12,484	12,484
	74,009	**31,009**	**76,570**	**191,858**	**203**	**12,484**	**386,133**
Interest sensitivity gap	**30,454**	**15,949**	**8,057**	**(24,649)**	**2,225**	**11,931**	
Cumulative interest sensitivity gap	**30,454**	**46,403**	**54,460**	**29,811**	**32,036**	**43,967**	
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**	

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2022 and 2021. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2022 Average effective interest rate, %			2021 Average effective interest rate, %		
	GEL	USD	EUR	GEL	USD	EUR
INTEREST BEARING ASSETS						
Cash and cash equivalents	5.53%	1.00%	-	5.69%	0.00%	-
Loans to customers	34.89%	18.80%	-	34.69%	18.53%	-
Net investments in leases	37.97%	-	-	36.43%	-	-
INTEREST BEARING LIABILITIES						
Borrowed funds	15.59%	6.15%	-	14.77%	6.02%	-

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 2022 and 2021, is as follows:

	2022	2021
100 bp parallel fall	(328)	(648)
100 bp parallel rise	328	648

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 12)*, 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, 2022:

	EUR	USD	Other	Total
ASSETS				
Cash and cash equivalents	5,017	8,497	591	14,105
Loans to customers	-	317	-	317
Other financial assets	11	622	-	633
Total assets	**5,028**	**9,436**	**591**	**15,055**
LIABILITIES				
Borrowed funds	-	144,544	-	144,544
Lease liability	-	6,783	-	6,783
Other financial liabilities	-	43	-	43
Total liabilities	**-**	**151,370**	**-**	**151,370**
Net position	**5,028**	**(141,934)**	**591**	**(136,315)**
The effect of derivatives held for risk management	**(2,162)**	**136,992**	**-**	**134,830**
Net position after derivatives held for risk management purposes	**2,866**	**(4,942)**	**591**	**(1,485)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

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**

The following significant exchange rates were applied during the year:

in GEL	**Average rate**		**Reporting date spot rate**	
	2022	**2021**	**2022**	**2021**
USD 1	2.9156	3.2284	2.7020	3.0976
EUR 1	3.0792	3.8299	2.8844	3.5040

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2022 and 2021, 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.

	2022	**2021**
10% appreciation of USD against GEL	(420)	92
10% appreciation of EUR against GEL	244	137

A strengthening of the GEL against the above currencies at December 31, 2022 and 2021 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.

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

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, 2022 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	-	-	-	8,032	-	8,032	8,032
Borrowed funds	8,339	69,636	37,449	78,646	218,853	412,923	356,499
Lease liability	338	676	1,014	1,834	5,255	9,117	8,121
Dividends payable	-	-	-	997	-	997	997
Other financial liabilities	9,841	15	-	2,575	53	12,484	12,484
Total financial liabilities	**18,518**	**70,327**	**38,463**	**92,084**	**224,161**	**443,553**	**386,133**

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**

Geographical risk

As at December 31, 2022 and 2021 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in thousands of Georgian Lari)

As at December 31, 2022 Group has borrowed funds of GEL 228,008 thousand, GEL 102,725 thousand and GEL 25,766 thousand received from counterparties registered in Europe, Georgia and the USA, respectively. 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.

The table below shows an analysis, by expected maturities, of amounts recognised in the consolidated statement of financial position as at December 31, 2022:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 1 to 5 years	More than 5 years	Overdue	Total
ASSETS							
Cash and cash equivalents	27,812	-	-	-	-	-	27,812
Loans to customers	55,600	35,109	130,643	157,477	2,334	7,632	388,795
Net investments in leases	13	37	810	7,841	80	1,060	9,841
Other financial assets	1,942	1	50	1,564	14	81	3,652
Total assets	**85,367**	**35,147**	**131,503**	**166,882**	**2,428**	**8,773**	**430,100**
LIABILITIES							
Financial liability at fair value through profit or loss	-	-	8,032	-	-	-	8,032
Borrowed funds	7,402	65,744	96,060	187,293	-	-	356,499
Lease liability	284	579	2,490	4,565	203	-	8,121
Dividend payable	-	-	997	-	-	-	997
Other financial liabilities	9,841	15	2,575	53	-	-	12,484
Total liabilities	**17,527**	**66,338**	**110,154**	**191,911**	**203**	**-**	**386,133**
Net position	**67,840**	**(31,191)**	**21,349**	**(25,029)**	**2,225**	**8,773**	**43,967**

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 6 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**
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**

Subsequent events

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

- In February 2023, the Group issued GEL 25,000 thousand first ever certified gender bond in the region, with Asian Development Bank (ADB) being an anchor investor (75%) and co-founded by the Bank of Georgia (25%);

- In February 2023, the Group signed USD 5,000 thousand loan agreement with Incofin C.V.S.O.;

- In April 2023, the Group signed GEL 13,000 thousand loan agreement with JSC Basis Bank, GEL 10,000 thousand loan agreement with JSC TBC Bank and GEL 7,560 thousand loan agreement EFSE S.A. SICAV-SIF.


ANNEXES

ANNEX 1

Compliance with the Uk Corporate Governance Code as of 2022

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	**4.5**
F: Role of a Chair	Partly
G: Independent members	Fully
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	**4.55**

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

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

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, assessment of the Chairman, and appointment of Senior Independent Director, the company follows the standards, thus partly meeting the requirement for principal F.

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.

ANNEX 2

A List of Abbreviations

ACCA	Association of Chartered Certified Accountants
ADB	Asian Development Bank
AFD	Agence Française de Développement
ALCO	Assets and Liabilities Committee
AML	Anti-money laundering
BCP	Business Continuity Plan
BP	Basis Point
CA	Current Account
CAR	Capital Adequacy Ratio
CHCA	Charity Humanitarian Centre Abkhazeti
CIS	Commonwealth of Independent States
CO2	Carbon Dioxide
COI	Conflict of Interest
DFC	US Development Finance Corporation (former OPIC)
DRP	Disaster Recovery Plan
E&S	Environmental and social
EE	Energy Efficient
EFSE	European Fund for Southeast Europe
ERP	Enterprise Resource Planning system
ESG	Environmental Social and Governance
EU	European Union
FDI	Foreign Direct Investment
FMO	Dutch Entrepreneurial Development Bank
GDP	Gross Domestic Product
GEL	Georgian Lari
GGF	Green for Growth Fund
HR	Human Resources
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
JSC	Joint Stock Company
KPI	Key Performance Indicator
LLC	Limited Liability Company
MFI	Microfinance Institution
MPR	Monetary Policy Rate
MSME	Micro, Small and Medium Enterprises
NBG	National Bank of Georgia
NEER	Nominal Effective Exchange Rate
NPL	Non-Performing Loans
PAR	Portfolio at Risk
PP	Percentage Point
RE	Renewable Energy
RED	Risk Events Database
REER	Real Effective Exchange Rate
ROA	Return on Assets
ROE	Return on Equity
SB	Supervisory Board
SDG	Sustainable Development Goal
SID	Senior Independent Director
SIDA	Swedish International Development Agency
SMS	Short Messaging Service
UN	United Nations
USD	United States Dollar
USAID	United States Agency for International Development
YoY	Year-over-year

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