ANNUAL REPORT

2021

ემბისი

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MANAGEMENT REPORT

MBC ემბისი

ABOUT US

JSC Microfinance Organization "Micro Business Capital" (MBC) is an organization operating on the basis of modern, innovative and international standards, which aims to offer customized and affordable financial services to micro and small entrepreneurs and farmers, increase the availability of financial resources and loan products, and to establish a long-term and transparent relationship with customers. MBC, as a socially responsible financial institution, is focused on contributing to the sustainable economic development of Georgia.

MISSION

MBC's mission is to enable small entrepreneurs and farmers to develop, and to promote the financial stability of micro-businesses through responsible lending.

GOAL

The company aims to offer available financial services and products to small entrepreneurs and farmers, and to establish long-term and transparent relationships with its customers.

VALUES

- Transparency;
- Responsibility;
- Partnership;
- Ethical corporate governance;
- Innovation.

₾ **97.2** Million **(+24%)**
Total assets

₾ **75.1** Million **(+9%)**
Total loans

4.7% **(+0.4%)**
Loans overdue for 30 days

₾ **20.3** Million **(+16%)**
Total capital

₾ **2.6** Million **(+74%)**
NET PROFIT

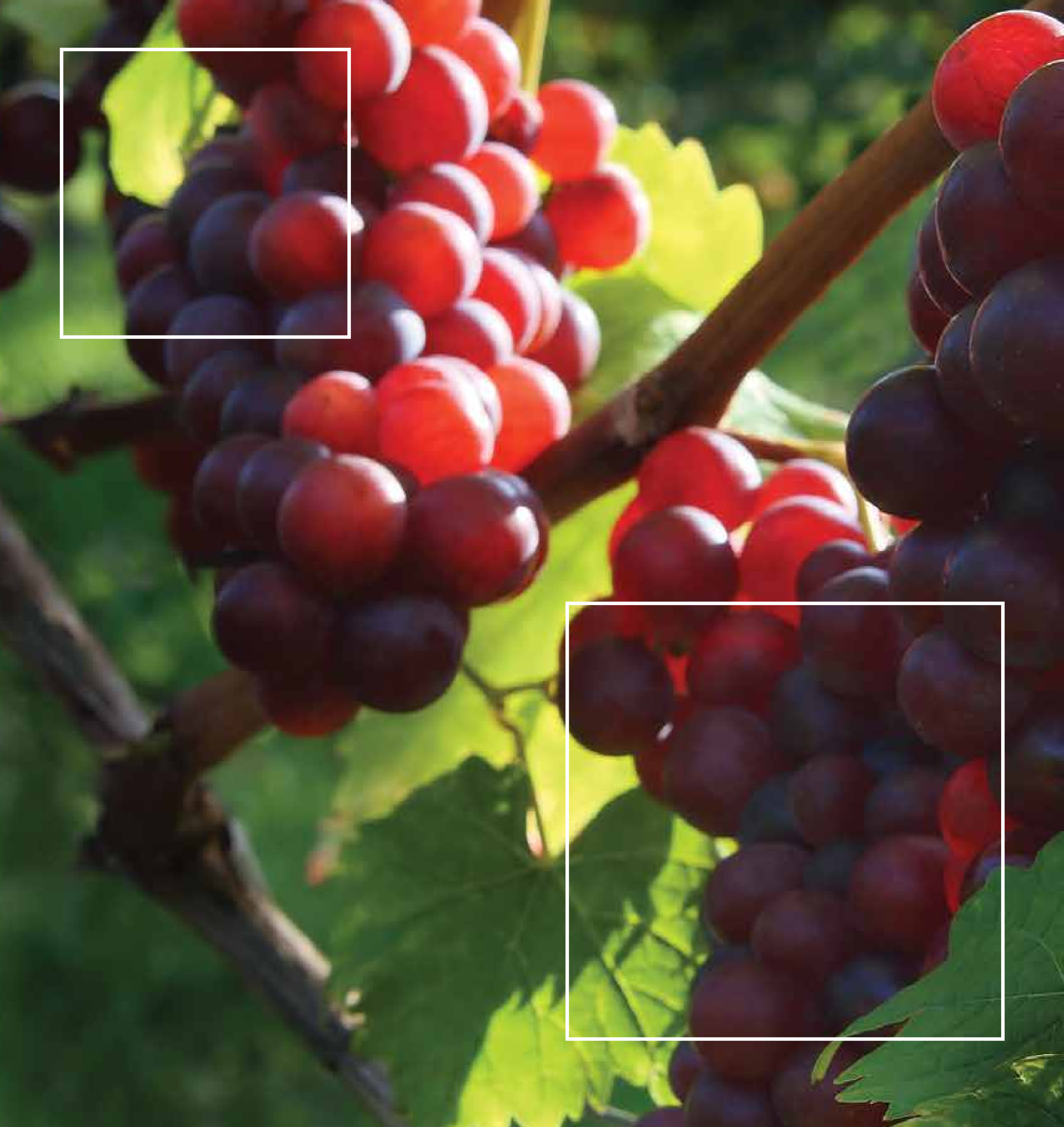
15 **(+1)**
Number of Branches

224 **(+42)**
Number of Employees

38,816 **(+21,254)**
Number of Consumers

At the beginning of July of 2021, the recognized international German rating company "Scope Ratings" gave a credit rating of "B+ Stable" to the microfinance organization MBC. In both in the 2020 and 2021 Scope's rating - **B+ STABLE WAS THE HIGHEST IN THE MICROFINANCE MARKET.** Within the framework of the mentioned rating, in 2022 MBC plans to issue 15 million GEL of unsecured securities.

SCOPE **B+ Stable**



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CEO STATEMENT

2021 was a year of difficulties and significant challenges for the microfinance market. Nevertheless, MBC managed to adapt well to the new challenges and to complete 2021 with success. It is through initiating significant changes, innovative approaches, sophisticated business models, a rapid response to changing environments and the joint efforts of our team that we achieved such strong financial, operational and social results, having overcome the challenges in the sector and continuing to develop the company sustainably.

MBC managed to increase its assets during the reporting period. At the end of the year, the loan portfolio amounted to GEL 75.1 million. Total assets increased by 24% and amounted to 97.2 million GEL, and total capital increased by 16% and amounted to 20.3 million GEL. We ended 2021 with a profit of 2.6 million GEL. According to the risk parameters, MBC was one of the best in the microfinance sector.

In 2021, as in 2020, we managed to attract long-term, unsecured loans from both existing and new international financial institutions, which indicates a clear expression of trust from our international partners.

The firm and stable risk profile of the company is clearly evidenced by the highest B+ credit rating in the microfinance market, granted by the international rating agency "Scope Ratings", which the company kept unchanged even during the pandemic.

• In 2021, MBC won the Best Annual Report and Transparency Award (BARTA). The competition is held in partnership with the European Union and World Bank Accounting, Reporting and Audit Reforms Support Fund (RSF), whose goal is to increase the quality of reporting and transparency of Georgian companies.

• In 2021, MFO "Micro Business Capital" won the "Employee Support during the COVID Pandemic" category of the Georgian Responsible Business Competition "Meliora 2020", which we are especially proud of.

In 2021, new innovative products for the microfinance sector were introduced, control mechanisms were improved, and the degree of corporate social responsibility was enhanced. Our team managed to maintain high rates of development. Through the joint efforts of the Supervisory Board and the Directorate, the organizational structure was further refined, and the regional network of service centers was expanded and developed. At the end of the year, MBC was represented by 15 service centers throughout Georgia, and its team consisted of 230 professionals.

The development of remote products and services was established as a strategic direction of the company. Using modern technologies, we offer our customers a new and simplified service that saves their time and helps MBC to position as an innovator.

In 2021, our team successfully solved existing tasks and set new plans, which would have been impossible without the high competence of the team, our corporate culture, and the right values. We have created an equal, fair and non-discriminatory work environment, ensured gender balance, and identified women's support and empowerment as a priority. The financial education of youth remains a priority for us, and in 2021 our team managed to train more than 200 pupils and students.

The great potential of the company's team will be directed towards continuous development, offering more innovations to our customers, and further strengthening our position in the financial market.

PERSPECTIVES AND FUTURE VISIONS

In 2021, we faced difficult challenges, achieved strong financial results, made progress in all strategic areas, strengthened corporate social responsibility, created even more jobs in Tbilisi and the regions, and set ambitious plans for 2022.

I would like to express my special thanks to the whole team of MBC for their hard work, dedication, and, with our shareholders, congratulate them on our results and achievements. We have all been able to adapt to the new reality caused by the pandemic. Together, we have kept our company and personal development going strong.

Next year, the main task of MBC is to obtain a micro-bank license. Accordingly, we have defined the stages and results of the expected transformation in our business plan, and started preparing for the actions and changes to be implemented at the beginning of the year. We believe the process of transformation into a bank will be fulfilled successfully and that the company will move to a completely new level of development.

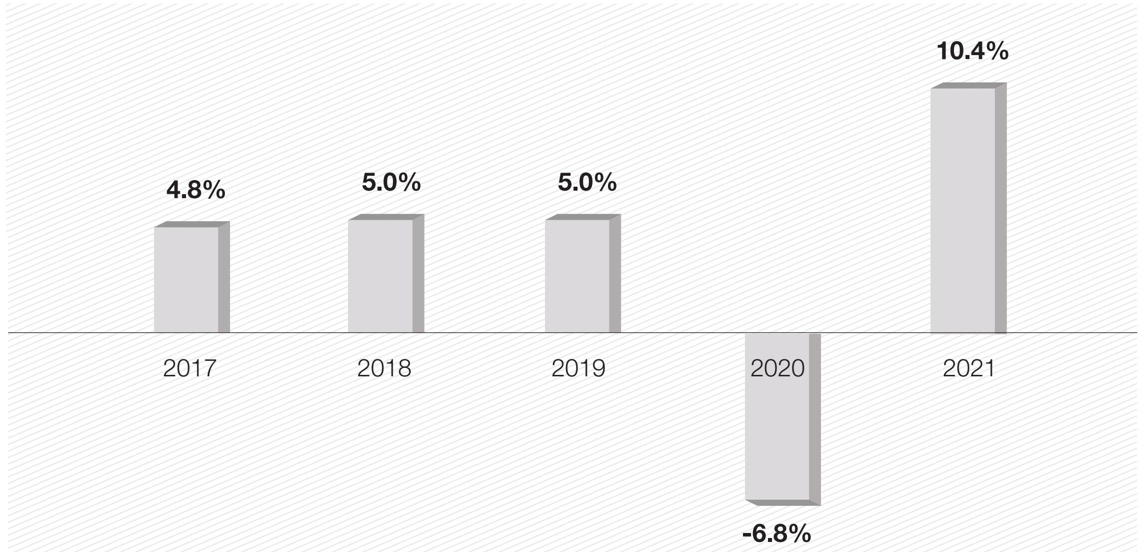
I am confident that with modern approaches, with the strong spirit of our staff, directorate and shareholders, we will continue to grow, increase customer access to financial resources, create jobs, implement social projects and successfully achieve the goals we have set.

GIA PETRIASHVILI
Chief Executive Officer

MACROECONOMICS AND MARKET OVERVIEW

According to the preliminary data of the National Statistics Agency of Georgia, the real GDP growth in 2021 was 10.4%, while the real growth of the country's economy in 2020 was -6.8%.

REAL GDP GROWTH



source: National Statistics Agency of Georgia

The decline of the GDP in 2020 significantly exceeded the economic forecasts made by international financial organizations at the beginning of 2020, according to the World Bank, the economic decline in 2020 should have been in the range of 2.8-4.4%[2], while the Asian Development Bank predicted 0% growth[3].

In 2021, the growth of the Georgian economy fulfilled the expectations of the Government of Georgia, which had predicted that economic growth would exceed 10%[2].

[2] source: https://www.worldbank.org/en/news/press-release/2020/04/08/in-georgia-real-gdp-growth-projected-to-slow-due-to-impacts-of-covid19

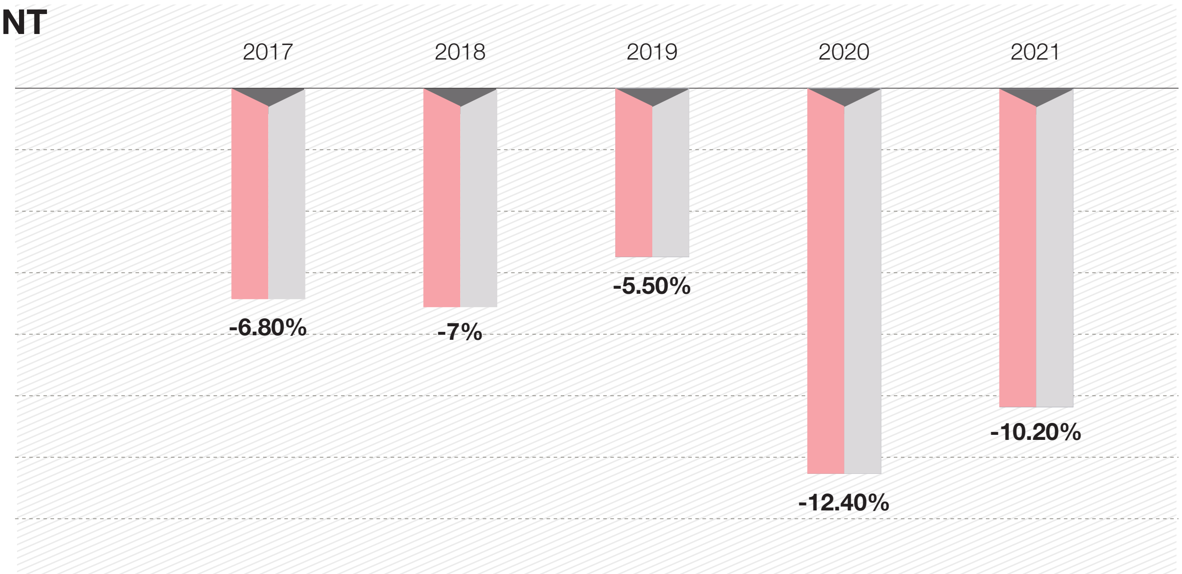
[3] source: https://www.adb.org/news/georgias-economy-recover-covid-19-impact-2021-45-growth-adb

CURRENT ACCOUNT

In 2021, the deficit of the current account amounted to 1,882 million USD, which is 92.8 million USD less compared to the previous year, and -10.2% in relation to the GDP.

In 2020, the current account of the tax balance of Georgia amounted to 1,965 million USD, compared to 2019, said deficit had increased by 1,005 million USD. In 2020 the current account deficit in relation to GDP increased from 5.5% in 2019 to 12.4%.

CURRENT ACCOUNT WITH GDP



The improvement in 2021 was due to increased remittances, exports, foreign direct investments, tourism and strengthening of the national currency.

EXPORT AND IMPORT

According to the data of 2021, compared to the previous year, exports increased by 0.9 billion USD and amounted to 4.2 billion USD, while imports increased by 2 billion USD and amounted to 10.1 billion USD.

There was a significant share in exports; CIS countries 47% of total exports, EU countries 17%, and China 14.5%.

There was also a significant share in imports; CIS countries 28% of the total export, EU countries 23%, and Turkey 18%.

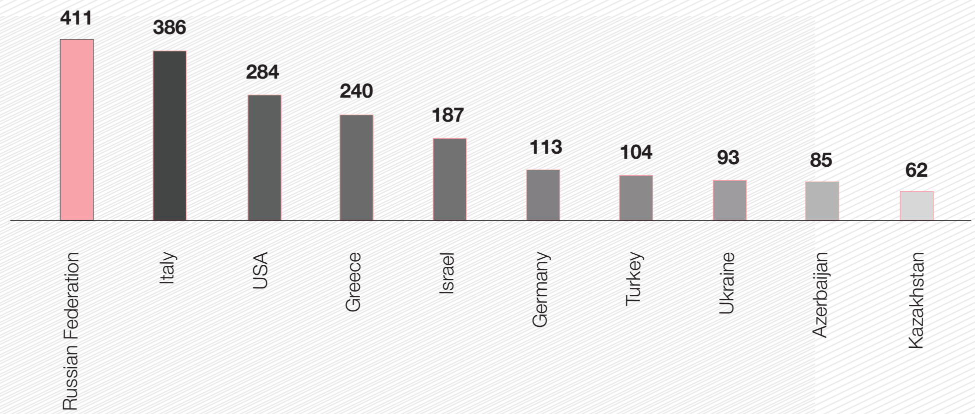
REMITTANCES

Total remittances in 2021 amounted to USD 2,350 million, which is USD 464 million (25%) higher than the same indicator in 2020.

Remittances in 2021 amounted to USD 317 million, which is USD 70 million (28%) higher than the same figure in 2020.

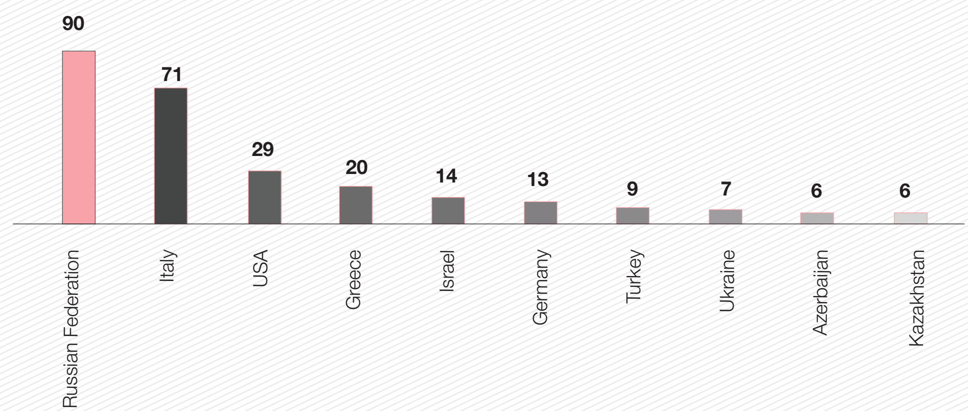
The distribution of remittances according to the largest countries is as follows; Russian Federation 19% of total remittances, Italy 16%, USA 12%, Greece 10%.

REMITTANCES BY LARGEST COUNTRIES (MILLION GEL)



Distribution of remittances according to the largest countries; Russian Federation 29%, Turkey 22%, Ukraine 9%, Azerbaijan 6%.

REMITTANCES ACCORDING TO THE LARGEST COUNTRIES (MILLION GEL)



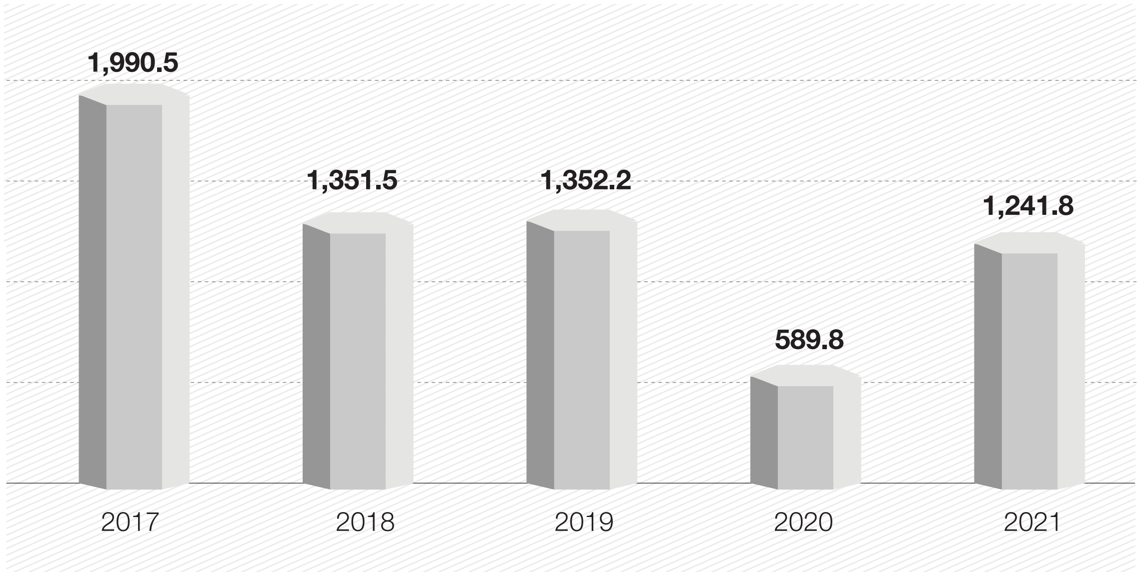
TOURISM

Due to the movement restrictions caused by the pandemic, the number of visitors to Georgia decreased significantly in 2020-2021. In 2020, the average monthly number of non-resident visitors was 91.8 thousand, mainly from Georgia's neighboring countries, which was only 18% of the number of visitors in 2019. The low number of visitors continued in the first two quarters of 2021, although a sharp increase in visitors was seen from the third quarter onward. In total, the average monthly number of non-resident visitors in 2021 was 118.6 thousand, which is a 30% increase compared to the previous year.

DIRECT FOREIGN INVESTMENTS

According to preliminary data of 2021, foreign direct investments amounted to 1,152.8 million USD. Compared to 2020, foreign direct investments increased by 101%, and compared to 2019, the data decreased by 14%.

FOREIGN DIRECT INVESTMENTS (MILLION USD)



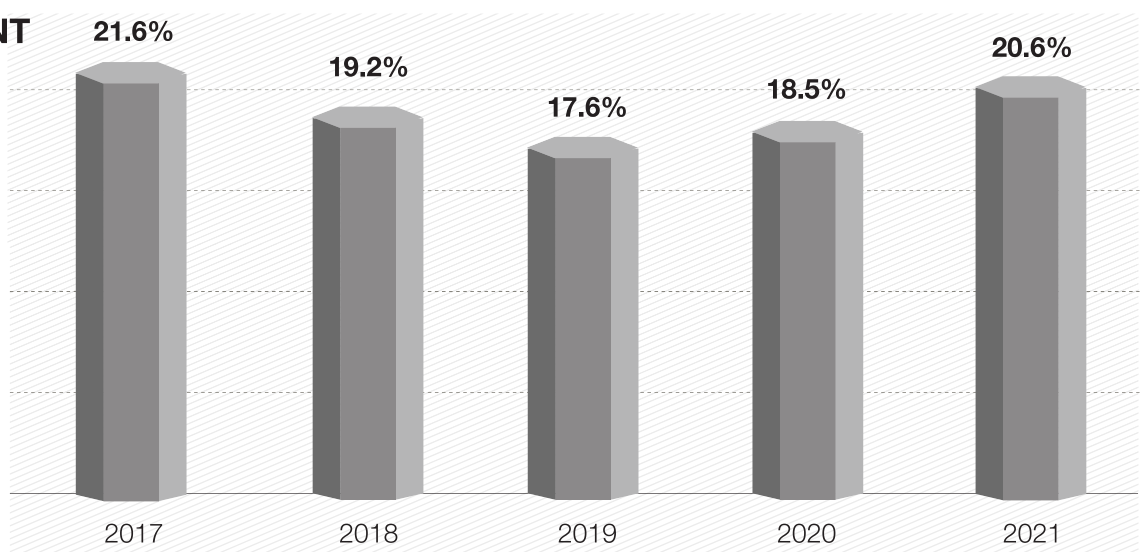
As of 2021, in terms of foreign direct investment (FDI) by country, the largest foreign direct investor in Georgia was the United Kingdom, with almost 52% of total investment, followed by The Netherlands at 11%, the Czech Republic at 7%, Turkey at 6%, and Russia at 5%.

According to the 2021 data, in terms of FDI by sector, the financial sector attracts the most FDI in Georgia, 38.5% of the FDI, followed by entertainment, recreation and other services at 20%, energy at 14%, manufacturing industry at 12%, and real estate at 7%.

EMPLOYMENT - SALARIES

The pandemic also affected the unemployment rate. According to the data of 2021, the number of unemployed people amounted to 291.9 thousand people, which is 10,000 more than the data of 2020, and 15,000 more than the data of 2019. According to the 2021 data, the unemployment rate was 20.6%, in 2020 18.5%, and in 2019 it was 17.6%.

THE UNEMPLOYMENT RATE



The average monthly nominal salary, according to the data of the Q4 2021, was determined at 1463.8 GEL. Compared to the data of 2020, it increased by 15%, and compared to 2019 by 23% (1,191 GEL in 2020, 1,129.5 GEL in 2019).

EXCHANGE RATES AND INTERNATIONAL RESERVES

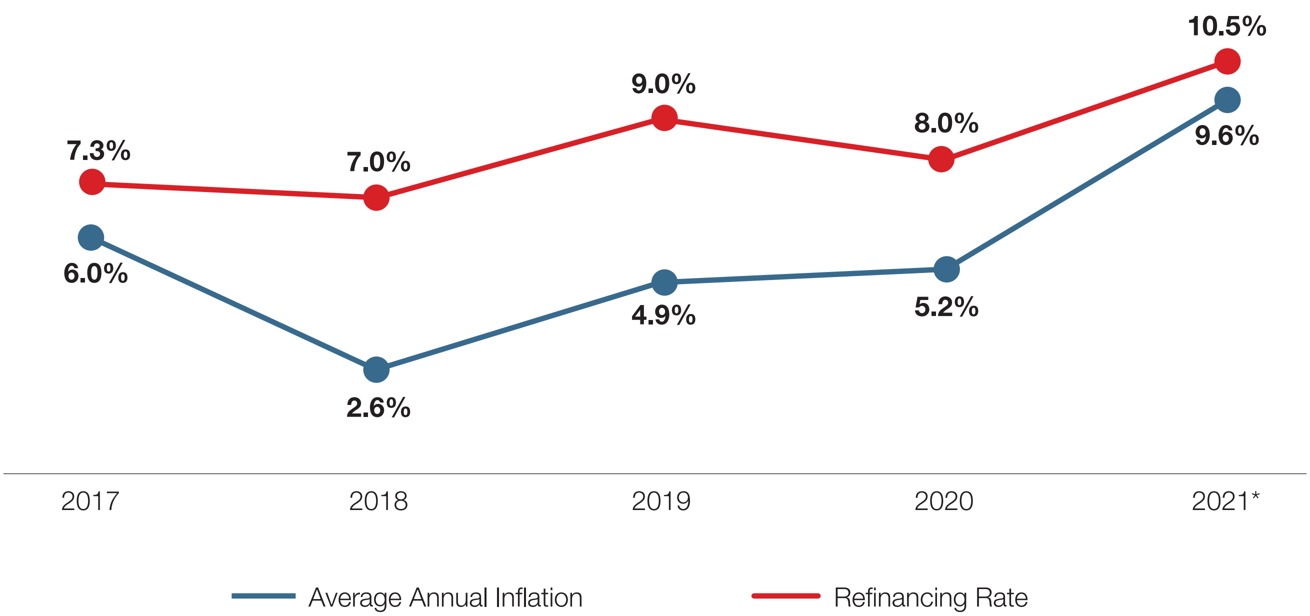
As of December 31, 2021, compared to the end of 2020, the exchange rate strengthened slightly. During 2021, the currency depreciated compared to 2020, but it started to strengthen in September-December 2021. As of December 31, 2021, compared to the end of 2020, the GEL strengthened by 5% against the USD, and by 13% against the euro. Compared to the end of 2019, the USD depreciated by 8%, and compared to the Euro by 9%.

The national currency strengthened in relation to the Turkish Lira and the Russian Ruble. As of December 31, 2021, the Georgian Lari had strengthened against the Turkish Lira by 47% compared to the end of 2020, and by 51% compared to 2019. In relation to the Russian Ruble, the Georgian Lari had strengthened by 6% compared to the end of 2020 and by 11% compared to the end of 2019.

As of December 2021, the National Bank of Georgia the sold 332.9 million USD through interventions at foreign exchange auctions, and had not purchased currency. Official reserve assets of the National Bank amounted to 4.1 billion USD at the end of 2021, and 3.9 billion USD at the end of 2020.

INFLATION AND THE MONETARY POLICY RATE

In December 2021, annual inflation amounted to 9.6%, which is significantly higher than the target rate of 3%. In order to reduce inflation, the National Bank significantly tightened the monetary policy rate. By the end of 2021, the refinancing rate was 10.5%, which is 2.5 percentage points higher than the rate at the end of the previous year.



STATE BUDGET

In 2020, the deficit of the state unified budget increased significantly, exceeded the established 3% limit, and amounted to 9% of the nominal GDP. In 2019, the same indicator was 2.6%, and in 2017-2018 it was less than 1%. According to preliminary data, the deficit improved in 2021, rising to 6.7%, although it still significantly exceeded the established 3% limit.

STATE DEBT

In 2020, the amount of public debt increased significantly, and the amount of government debt in relation to GDP exceeded the 60% limit established by the "Economic Freedom" law, amounting to 60.7%, of which 48% was foreign debt, and 12.7% was domestic debt.
The state foreign debt of Georgia amounted to 24.7 billion GEL as of the end of 2020, and amounted to 25.4 billion GEL as of 2021. At the end of 2020, the domestic debt amounted to 6.2 billion GEL, and as of December 2021, it amounted to 5.8 billion GEL.

INTERNATIONAL RATING

Despite the fact that 2020-2021 was full of challenges for the world over, including Georgia, the sovereign credit ratings assigned to Georgia by the largest rating agencies did not change, Moody's ”Ba2” with a stable outlook, S&P’s “BB” rating, with a stable outlook, and Fitch “BB” rating, where the outlook changed from stable to negative.

BUSINESS DOING RATING

In 2020, Georgia (among 190 countries) ranked 7th in the World Bank's Ease of Doing Business ranking. Despite the fact that Georgia's total score in 2020 increased from 83.5 to 83.7 compared to the previous year, the country's position dropped by 1 place - moving from 6th position to 7th. Countries like New Zealand, Singapore, Hong Kong, Denmark, South Korea, and the USA are ahead of Georgia.

ECONOMIC FORECAST FOR 2022

The COVID-19 pandemic has dealt a significant blow to the Georgian economy. Restriction of mobility, sudden cessation of international tourism, a pause in leading economic sectors and weak external demand led to a 6.8 percent economic decline in 2020. Rising unemployment and loss of income increased the poverty rate by about 5.4 percentage points. Inflation, fiscal deficit and public debt exceeded the established limit. Nevertheless, the economy of Georgia started to improve from the second quarter of 2021, the export-import, turnover of VAT-paying enterprises, growth of the financial sector, net remittances and other economic indicators increased significantly. Taking into account the positive economic trends, the annual growth of the economy reached a double-digit mark. According to the forecasts for this stage, according to the forecasts of the Asian Development Bank, economic growth is expected within the limits of 3.5% for 2022, and within the limits of 5% on average in 2023.

As can be seen from the statistics, in 2021 the main macroeconomic parameters improved compared to 2020, which reflects in the GDP growth. The macroeconomic indicators of 2022 are significantly related to the effects of the Russia-Ukraine war; in particular, a decrease in tourism, export and remittance indicators is expected. Macroeconomic parameters are expected to improve further in 2022. If the positive trends are maintained, we should not expect a significant depreciation of the exchange rate in the statistics of exports, imports, direct foreign investments, tourism and remittances. One of the main challenges in macroeconomic indicators is the high level of inflation, in order to mitigate which, the National Bank of Georgia applies monetary policy rate tightening measures. Due to the fact that the real rate of inflation still significantly exceeds the target rate, no significant reduction of the monetary policy rate is expected in 2022. According to the forecast of the Asian Development Bank, "Inflation will slow to 7% in 2022, and will reach 4% in 2023. In 2022, the current account deficit is projected to increase to 10%, which is due to the expectation of an increase in oil prices, and in 2023, it will decrease to 7.5%. Exports will increase by 12.1% in 2022 and by 14.9% in 2023.”

OVERVIEW OF THE MICROFINANCE MARKET

INFLATION AND THE MONETARY POLICY RATE

Despite the pandemic, the microfinance sector recorded growth in both assets and loan portfolios in 2020-2021.

NUMBER OF MICROFINANCE ORGANIZATIONS AND NUMBER OF ACTIVE LOANS

In 2021, the decreasing trend of participants registering in the microfinance sector continued, facilitated by the pandemic. At the end of the fourth quarter of 2021, the number of registered microfinance organizations (hereinafter referred to as "MFO") was 38. In the pandemic conditions, 10 microfinance organizations left the microfinance market in 2020-2021.

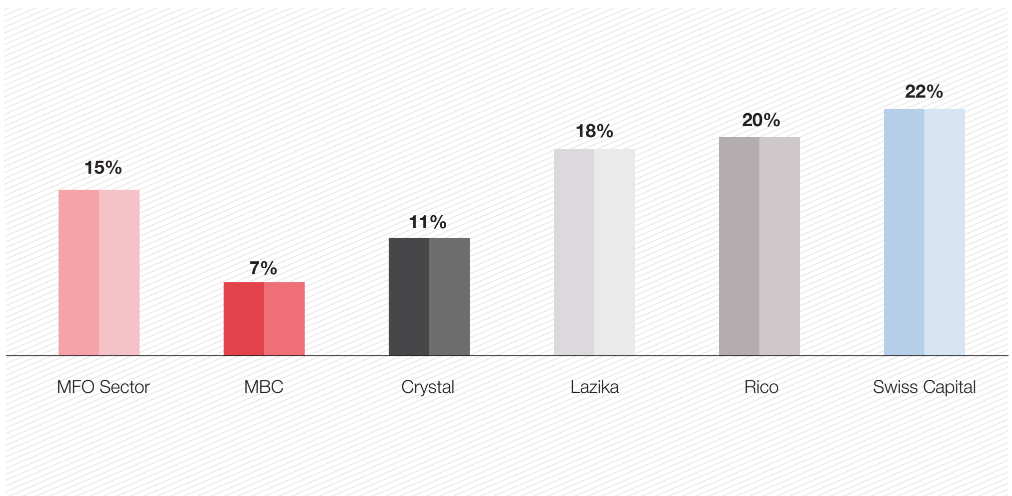
At the end of 2021, the number of active loans in the microfinance sector amounted to 727,000, an increase of 9% compared to the end of 2020.

MICROFINANCE SECTOR ASSETS AND TOTAL LOANS

At the end of 2021, the total assets of the microfinance sector amounted to 1.6 billion GEL, and the annual growth rate of assets amounted to 10.7%. The total portfolio of the microfinance sector exceeded 1.3 billion GEL at the end of 2021, and the annual growth rate was 14.9%.

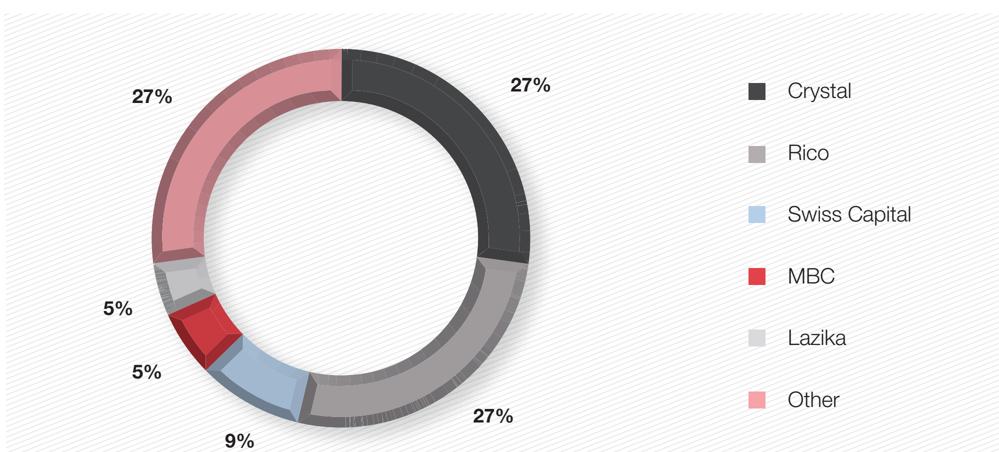
In 2021, the growth of the MFO market portfolio was 15%, that of Swiss Capital - 22%, Rico -20%, Lazika -18%, Crystal - 11%, and MBC - 7%.

TOTAL PORTFOLIO GROWTH



SHARE DISTRIBUTION OF THE MICROFINANCE SECTOR

According to the data of the end of 2021, the share distribution of the representatives of the sector, according to the size of the portfolio (total loans) was: Crystal - 27%, Rico Credit - 27%, Swiss Capital - 9%, MBC - 5%, Lazika Capital - 5%, while the remaining 33 held 27% of the market portfolio.

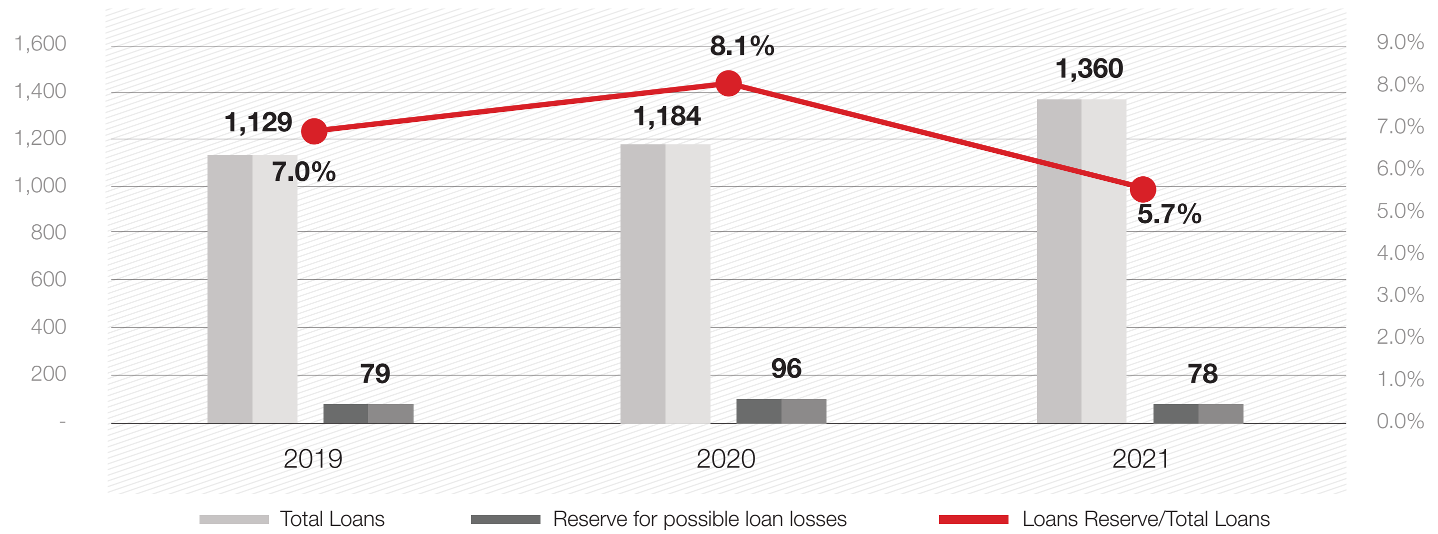


MBC plans to increase its market share in 2022, which should be facilitated by the development of a network of regional service centers, product expansion and our offering high-quality customer service.

RISKS OF THE SECTOR AND DIRECT COMPETITORS

The risks of the sector are characterized by a decreasing trend, which is reflected in a decrease in the reserve available for possible losses. According to the data at the end of 2021, the reserve for possible loan losses was 5.7% of total loans, which is less than the data of both 2020 and the end of 2019.

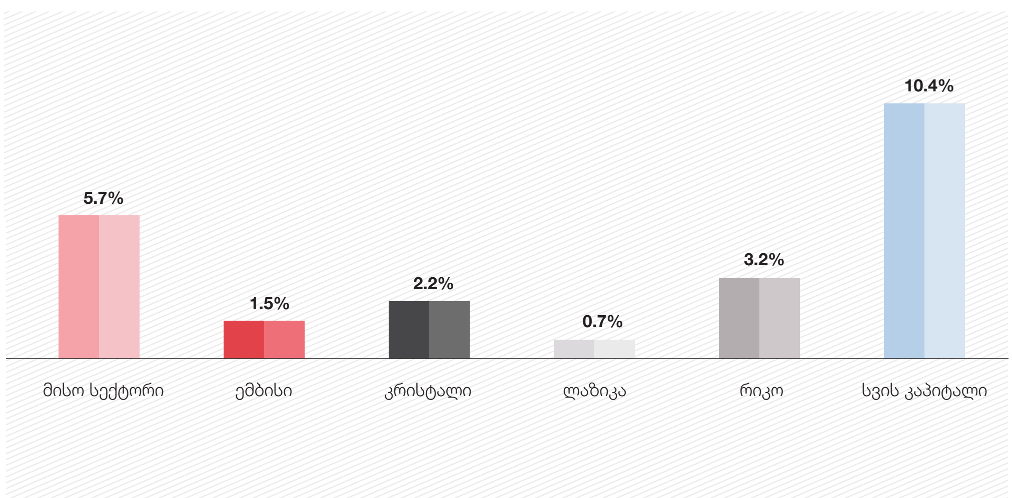
TOTAL LOANS (MILLION GEL)



Source: National Bank of Georgia

As of the end of 2021, MBC had one of the lowest risks in relation to the market and to the largest players in the market, a fact reflected in the low rate of possible loan loss reserves in relation to the entire portfolio.

TOTAL RESERVES WITH LOANS



BUSINESS MODEL AND STRATEGY

In accordance with the target, MBC's strategy is focused on creating opportunities for the development of small entrepreneurs and farmers, and promoting the stability of micro businesses through responsible lending. The company's competitive advantage is its customer-focused business model, which aims to offer the best services in the microfinance sector. In its activities, the company is guided by international management standards and advanced practices. MBC constantly develops products and improves its services, promoting the increase in the availability of financial resources. Employee development, investing in their knowledge, and corporate social responsibility remain an important part of the strategy.

The strategic priorities are:

- Development and effective use of financial products;
- Initiation and implementation of innovative approaches in the microfinance sector;
- Improvement of services;
- Development of employees;
- Promotion of financial education.

DEVELOPMENT AND EFFECTIVE USE OF FINANCIAL PRODUCTS

The company is represented by 15 service centers in 7 regions of Georgia. In accordance with our strategy, the development of the regional network is actively planned in the future. MBC customers receive services both in service centers and through digital channels. Services include a wide range of credit and operational products for both natural persons and legal entities. In both directions, it is planned to improve the existing products, as well as to add new products and services. MBC pays special attention to the development, updating, proper integration and continuous monitoring of its products and services, internal systems, procedures and policies. As of 2021, MBC is in the leading position among microfinance organizations, and occupies the 4th position in terms of the size of its credit portfolio. The company's goal is to both maintain leadership and ensure its promotion.

In the next two years, special attention will also be paid to MBC's financial and social ratings. Importantly, the high credit rating of "B+ Stable" in 2021 was due to the company's financial portfolio, profitability, management method and positioning in the competitive market. One of the factors for our achieving a high position was the stable development of the company. Interest income remains the main area of income generation. In accordance with the strategy, key performance indicators (KPI) have been developed in the company, through which the results achieved by financial and operational activities are measured. The mentioned indicators correspond to our strategy and ensure the achievement of the set goals and sustainable growth.

INITIATION AND IMPLEMENTATION OF INNOVATIVE APPROACHES

The rapid development of technologies in the modern environment creates significant new opportunities in terms of the availability, convenience and efficiency of financial products. For MBC, it is important to encourage innovation and support the transformation of interesting ideas into a sustainable financial model, in order to offer new products that allow rapid development. It is especially important to share international experience, and to quickly and effectively introduce innovative products and offer them to customers. MBC is constantly working on improving its digital capabilities, remote products and services, as well as developing innovative solutions to support its customers, employees and target groups.

IMPROVEMENT OF SERVICES

One of the main goals of the company is constant care for our customers and the continuous improvement of service quality. Special priority is given to being the best service provider in the microfinance market. In order to achieve and successfully implement this goal, MBC constantly studies its customers' needs, conducts relevant surveys and research, has systematic direct communication with customers, and effectively uses feedback channels. Information is analyzed, which further helps us to transform products and services according to our customers' requirements. Such an approach allows us to meet the expectations of our customers, take into account their requirements and maintain a high standard of service.

EMPLOYEE DEVELOPMENT

The basis of MBC's success and the most valuable asset is its team of employees. That is why the management pays special attention to creating safe conditions, development-promoting, and encouraging a comfortable and friendly working environment. The personnel management strategy is completely focused on a high motivation system and promotion of healthy competition. MBC provides for the development of its employees, promotes the maximum manifestation of their abilities, and creates the right conditions for their professional development and career advancement. Financially supporting the trainings necessary for that qualification improvement and professional development. The qualification and competence of our employees is an important factor for the development of the company as a whole. MBC's team is distinguished by professionalism, knowledge, experience and high motivation.

PROMOTION OF FINANCIAL EDUCATION

Raising the financial education of the population of Georgia, especially the citizens living in the regions, is one of the priorities and a task reflected in MBC's strategy, as financial education is the basic skill through which financial prosperity and stability can be achieved. Sustainable project "Financial Advisor" was created in MBC, within the framework of which residents, entrepreneurs and, farmers have the opportunity to receive advice and learn more about the relevant content, as well as to attend trainings and workshops within the framework of the project. Visits to schools and universities are planned as part of the project. During the pandemic, representatives of the affected sectors such as tourism, social enterprises and community organizations working in the regions received appropriate services. "Financial Advisor" aims to share the team's experience and knowledge with people who need it. Progress, success and sustainable development are important for MBC, therefore, the implementation of the strategy and, compliance with the goals and key indicators developed by the company are constantly monitored. We aim to provide customers with transparent and high-quality services to help them maximize the social benefits.

In 2022-2023, MBC plans to obtain a micro-bank license. In the financial sector, the idea of creating a new financial institution with a medium-sized, stable business model and high reputation came from the National Bank of Georgia, which has developed the relevant bill and is waiting for its approval by Parliament. The Parliament of Georgia will consider the new law in the autumn session of 2022.

The main purpose of the law is:
- Creation of a medium-sized, stable business model and a new financial institution with a high reputation in the financial sector;
- Promotion of crediting entrepreneurial and agricultural activities;
- Increasing competition and decreasing interest rates on credit products;
- Increasing access to and involvement in financial products, especially in rural areas;
- Social mission, creation of new jobs as a result of small business development;
- Increasing the interest of international investors.

Obtaining a micro bank license will create several important opportunities for MBC, namely:
• The maximum lending limit will be increased - the maximum total amount of credits and other obligations granted to one borrower or a group of interconnected borrowers will be 1,000,000 GEL instead of 100,000 GEL.
• The area of permissible activities will be expanded, among them it will be possible to:
o Attract interest-bearing and interest-free demand and term deposits;
o Service current accounts;
o Open and service correspondent accounts;
o Issue of payment cards and organize their circulation;
o Implementat payment services, operate the payment system, perform settlement agent functions, and more.

Clear in the bill is, the main criteria for obtaining a micro bank license: The company's business model and the composition of the loan portfolio. In particular, lending of entrepreneurial and agricultural activities should be at least 70% of the total credit portfolio.

In the near future, the company’s main task is to obtain a micro-bank license, therefore 2021 was defined as a preparatory period, and the business plan of this year was fully adapted to the criteria and requirements, changes and actions to be implemented in the bill.

The difficulties caused by the pandemic in 2020 had the company facing challenges in 2021. Due to reduced demand and increased risks in the financial market, the company used a conservative approach to grow, and recorded a lower growth rate in total loans compared to previous years. Nevertheless, MBC managed to successfully grow revenues and control costs, generating a 74% increase in net profit compared to 2020.

While the total portfolio growth rate was 9% (16% in 2020), the company's total assets increased by 24% (12% in 2020). The reason for the increase in assets, in addition to the loan portfolio, was the increase in liquid funds. Based on the company's ambitious future plans, at the end of 2021, MBC attracted several loans in advance, both from Georgian and international financial institutions, and ended 2021 with 13.9 million GEL (2.7 million GEL in 2020), which was 14% of the total assets.

One of the company's priorities in 2021 was to improve portfolio composition and to lower risk ratios. In order to increase the share of business and agro loans in the total portfolio, the company has opened several service centers in different regions of Georgia in recent years, including in Telavi in 2021. As a result of this strategic decision, at the end of 2021, the share of business and agro loans in the total portfolio increased to 76% (73% in 2020). In addition to improving the composition of the portfolio, the company successfully managed credit risks and maintained a high-quality portfolio. Impairment losses decreased to 0.6% of the average total portfolio (1.2% in 2020).

Despite reduced financial investments in the market due to the pandemic, the company managed to attract additional low-rate, long-term, unsecured loans of 12.6 million GEL from both existing and new international financial institutions. At the end of 2021, funds raised from financial institutions accounted for 83% of the total funds raised, which was 8% higher than in 2020.

In 2021, the total capital increased by 16% and amounted to 20.3 million GEL. No significant investments were made in the share capital, and the main reason for the increase was the increase of retained earnings by 2.6 million GEL. As in previous years, the company successfully met the capital adequacy requirement established by the National Bank, which has a minimum limit of 18%, and at the end of 2021, the MBC ratio was 24.3%. The company did not distribute dividends in 2021.

As in previous years, one of the main tasks in 2021 was to manage open positions and minimize hedging costs. Despite the fact that the cost of hedging and the volume of raised funds denominated in foreign currency increased in 2021, the company effectively managed foreign exchange operations and the net loss from revaluation and foreign currency conversion amounted to 2.2 million GEL, which exceeded the data of 2020 by only 0.4 million GEL. The negative impact on the company's profitability was caused by the increase in operating expenses, which itself came about as a result of the increase in the number of service centers and employees of the company. In 2021, the operating expenses amounted to 9.2 million GEL and exceeded the data of 2020 by 1.2 million GEL. Despite the increased costs, like in 2020, in 2021, the company was able to maintain high profitability ratios in relation to the market, and at the end of 2021, the return on average assets was 2.9% (+0.9 pp), and the return on average capital was 13.7% (+5pp).

ATTRACTED LOAN MANAGEMENT

Since its establishment, MBC has been distinguished by a diversified structure of attracted loans. The company has received long-term subordinated loans from shareholders (which amounted to 5.5 million GEL at the end of 2021), as well as senior loans from shareholders and other natural persons, which represent a small part (8.3%) of the total attracted loans.

MBC's main source of funding is loans from local and international financial institutions. MBC actively works with five Georgian commercial banks, which provide significant support to the company in managing both credit and other operations. At the end of 2021 the amount of loans attracted from local banks was 30.4 million GEL (25.5 million GEL in 2020). In addition, at the end of 2021, the company concluded 21.2 million GEL swap contracts, which were used to hedge funds attracted in foreign currency.

In 2021, the role of international financial institutions as a source of financing increased even more. Since 2019, the company has been actively cooperating with several financial institutions. The leading European investment funds Symbiotics and TripleJump were added to their number in 2021. At the end of the year, the amount of loans attracted from international organizations amounted to 28.4 million GEL (15.9 million GEL in 2020). Loans attracted from international financial institutions are characterized by a low interest rate, a long term and are without collateral. The company's goal is to strengthen cooperation with partner organizations and to be able to attract subordinated loans, as well as to consider their participation in the primary capital in the future.

COMPANY PARTNERS:

incofin INVESTMENT MANAGEMENT

symbiotics

BANK IM BISTUM ESSEN

TripleJump

EFAGROUP

საქართველოს ბანკი BANK OF GEORGIA

თიბისი ბანკი TBC BANK

LIBERTY

ბაზისბანკი BASISBANK

PASHA Bank

ORGANIZATIONAL STRUCTURE AND BASIC PRINCIPLES OF RISK MANAGEMENT

All MBC employees are involved in the risk management process, which is the most important part of the risk management system, contributing as it does to the sustainability of the company. Structural units have clearly defined roles and responsibilities in risk management processes, which ensures the effectiveness of those risk management processes.

Risk management is carried out within the framework of a unified risk management system, the purpose of which is to:

- Timely identify existing risks and threats;
- Prevention of possible losses;
- Effectively manage ongoing incidents;
- Promote the achievement of MISO's goals;
- Improve control;
- Increase the efficiency of operations;
- Promote the sustainability of the organization;
- Ensure compliance with regulatory requirements and international standards.

The company's organizational structure ensures adequate supervision, accountability, and a clear division of duties. The highest risk management body is the Supervisory Board, which defines the company's strategy and supervises the implementation of strategic goals, while the Directorate participates in the management of daily processes.

The individual risks management on a day-to-day basis is based on the principle of "Three Lines of Defense", which ensures the separation of obligations and responsibilities in order to achieve effective risk management, which in turn contributes to the strengthening of the internal control framework.

A three lines of defense separate ownership/risk management from the functions that oversee risk and independent audit:
Line of Business - structural units that own and manage risk.

Second Line of Defense - The second line of defense is independent of the first line of defense and monitors the company's risk-taking processes, assessing risks and related issues.

Third line of defense - Internal audit is the third line of defense. Internal audit is independent from the first and second lines of defense and its main function is to assess the consistency and effectiveness of the company's internal control system, the first and second lines of defense and the overall risk management framework.

RISKS MANAGEMENT

- **CREDIT RISK** - represents the risk of a customer's failure to fulfill their obligations under the contract. Since more than 90% of the company's assets are the credit portfolio, credit risk is the most important risk for the company. Therefore, prudent management of credit risks is critically important for MBC. A balanced credit policy, strong internal control mechanisms, risk diversification and proper motivation of the team are the main prerequisites for creating a healthy and stable portfolio.
- **PORTFOLIO RISK ANALYSIS** - thr Risk Department regularly carries out portfolio risk analysis, to identify the concentration of risks in the portfolio and implement mitigation measures in order to reduce it. The Portfolio Risk Report is submitted to the Directorate on a monthly basis.
- **PORTFOLIO DIVERSIFICATION** - one of the most important components of credit risk management is portfolio diversification. Diversification is based on consumer type, geographical area, activity and sector concentration.
- **LOAN CHARACTERISTICS** - the company's loans are relatively short-termed. Loans are denominated in the national currency, which reduces borrowers' currency risks. Loans are secured, which is an important means of mitigating credit risks.
- **RESERVATION OF LOAN LOSSES** - creating an adequate reserve is the foundation of credit risk management. MBC uses a more conservative approach in relation to the principles defined by the National Bank of Georgia, which is reflected in the fact that, regardless of the quality of loan collateral (solid/non-solid), MBC reserves loans in a more conservative non-solid scheme.
- **LOAN COMMITTEE** - decisions on loans are made by the Credit Committee, which is an independent body. In the company, the duties of the parties participating in the credit analysis and credit approval process are clearly separated. The rights of the committee members are determined by the Credit Committee Limits Document. In the document, the limits are differentiated according to the product, loan volume, collateral type, geographical location. The decisions of the Credit Committee are based on the principles of responsible lending, which implies the ability of the borrower to service the payments provided for in the loan schedule without financial difficulties. The loan approved by the committee should serve to improve the welfare of the borrower.
- **POLICIES/PROCEDURES** - policies/procedures take into account the best international practices and are fully in compliance with the requirements defined by the legislation of Georgia, as well as the norms developed by the National Bank of Georgia.

• **OPERATIONAL RISK FRAMEWORK** - an operational risk management framework has been implemented in MBC, within the frames of which operational risks are continuously identified and risk minimization and control mechanisms are developed, implemented and monitored in relation to the identified risks.

• **INCIDENT MANAGEMENT** - MBC carries out detection, collection, recording and classification of operational incidents, based on the methodology of the Basel Committee and in accordance with the requirements of the National Bank of Georgia for commercial banks.

• **COMPLIANCE** - to ensure full compliance with legal requirements, the company has created appropriate management systems and processes, which are provided at all levels of operations.

• **SOFTWARE** - MBC constantly updates its software in order to comply with Georgian legislation and to automate processes, reduce risks and increase efficiency.

• **TRAINING OF EMPLOYEES** - MBC employees are given trainings in order to raise their awareness of the risks existing in their processes.

• **REPORTING** - a report is periodically submitted to the Directorate of MBC, about the work performed in the direction of risk minimization, control mechanisms implemented in various processes throughout the company, and about the measures to be taken in the future.

PLANNED IMPROVEMENTS IN RISK MANAGEMENT IN 2022

• Agreement of internal policy procedures with the National Bank of Georgia;

• Separation of compliance into a distinct direction, and strengthening of control functions;

• Improvement of risk management policies and alignment with best financial practices;

• Identification of material risks and preparation of a report, in accordance with the risk management policy;

• Refinement and improvement of the incident management system;

• Improvement of software in order to increase the effectiveness of AML/CFT risk management.

• **SAFETY OF EMPLOYEES AND CUSTOMERS** - As a company with high social responsibility, the recommendations of disease control and health protection organizations were meticulously followed in order to prevent the spread of COVID-19 in the service centers of MBC. The company, in the shortest possible time, took the most important steps in terms of ensuring the safety of both employees and customers. Each employee of MBC was equipped with special masks, face shields, gloves and disinfectants. All this equipment was also available for our consumers. In branches, special organic glass separators were installed between customers and employees to avoid direct contact as much as possible. Each service center had general recommendations on how to prevent the spread of the new coronavirus, special posters requesting personal hygiene and distance protection were installed, as were notices of all the necessary safety rules to be considered for customers when receiving MBC services. Disinfection works were regularly carried out both in the head office and branches. Part of the staff switched to remote working mode. Employee transportation was provided during the period of movement restrictions. Employees who are at high risk due to health conditions, as well as employees whose specifics of work allowed, switched to remote work mode. The main asset and value of MBC is its customers and employees. Therefore, the company's management continuously analyzed the risks, Georgia’s situation, of Georgia and took effective steps to ensure their safety based on the recommendations of the country's health services.

• **BUSINESS CONTINUITY PLAN** - As soon as the pandemic was announced, the company developed and approved a business continuity plan, which clearly outlined the specific actions to be taken by the company in order to avoid the risks posed by the spread of pandemic virus in the country under different possible scenarios. The plan aimed at promotion of the company's business comfort, and risk optimization in the different scenarios. In order to prevent coronavirus and mitigate the relevant risks, a reorganization plan was developed.

• **LOAN DEFERRAL PROJECT** - In response to current events and on the basis of the motivation to provide the right customer care, MBC voluntarily joined a commercial bank initiative to introduce a grace period on loans, offering customers a three-month grace period. This gave our customers extra time to alleviate the shock caused by the pandemic.

• **THE MBC "SOLIDARITY FUND"** – was created and approved. The statute of the fund aimed to provide material assistance to employees in case of infection with coronavirus (COVID 19);

• **LOAN FORGIVENESS PROJECT** - MBC forgave the loans of consumers severely affected by the pandemic.

CORPORATE RESPONSIBILITY

MBC, as a highly responsible financial institution, is focused on participating in the achievement of the Sustainable Development Goals (SDGs).

Considering the social, economic and environmental factors in our activities, we strive to contribute to the achievement of SDGs and to improve our results year-on-year.

MBC'S PARTNERS

MBC is a member of numerous local and international networks that promote the development of corporate social responsibility (CSR). These are: Global Compact, CSR Club, Georgian Pro Bono Network, UN Women, MFC, and Smart Campaign. It is also a supporter of those international and local organizations that work with the interests of the more vulnerable groups of society.

UN Global Compact	UN Women	Microfinance Centre	Smart Campaign	CSRDG	Actions Against Hunger	CIDA	PROBONO Georgia	Fund Taso	Katharsis

SUSTAINABILITY GOVERNANCE

We realize that it is very important to manage business through sustainable and responsible approaches, and to use these approaches to conduct business relations with employees, customers, investors, society, partners, etc. Our goal is to introduce a sustainable and responsible organizational culture at different levels of the company's management and to always focus on improving it.

Effective management, corporate responsibility, and sustainable development issues are provided by the operations department, specifically the CSR manager, who reports to the Director of Operations. The manager is responsible for the development, implementation and management of the company's CSR strategy, relevant approaches, and policies. Their functions also include the preparation and submission of sustainable development reports to both the Supervisory Board and the Directorate.

In addition, within the strategic plan of MBC, it is envisaged to create a sustainable development committee in the Supervisory Board, which will determine the company's corporate responsibility policy and the integration of environmental, governance and social factors in the company's activities.

BUSINESS ETHIC

Company management is based on compliance with laws and regulations, as well as with the high ethical principles developed and announced by the company.

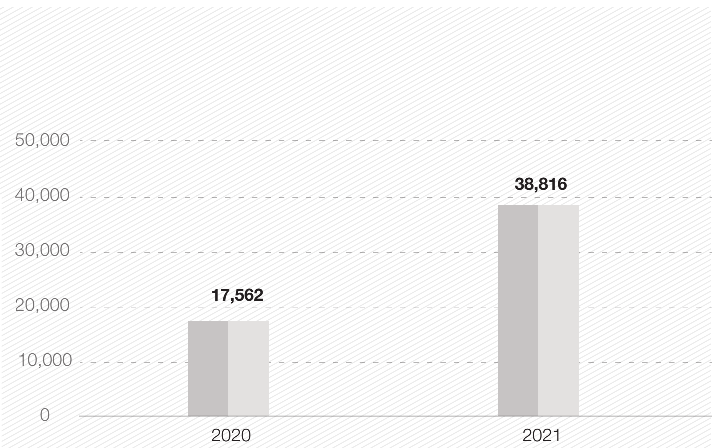
Customer care is the main value within all our activities. We are in constant communication with our customers, researching their expectations and interests, and taking care to maintain their satisfaction level, and even to increase it.

As of 2021, MBC had served a total of 7,143 clients. Compared to the year prior, that number had increased by 15%. According to the final report, 56% of consumers were from the regions of Georgia and 44% from Tbilisi.

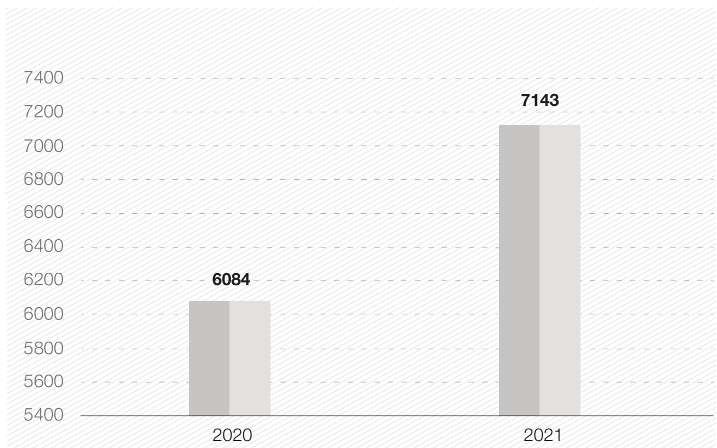
We have a well-diversified loan portfolio and, as of 2021, it amounted to 7,310 million GEL.
Our goal is to make financial products and services accessible to micro and small entrepreneurs and farmers, especially in the regions of Georgia, through responsible financing.

38,816	7,143	₾75,56 930MIL.
Customers	Borrowers	Loans

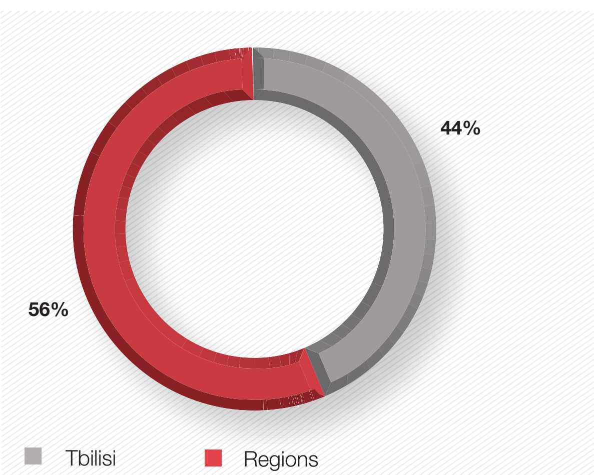
TOTAL NUMBER OF CUSTOMERS



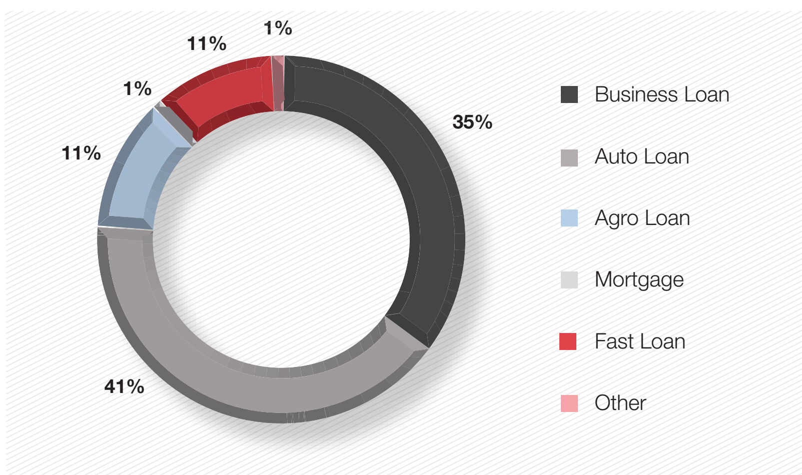
TOTAL NUMBER OF BORROWERS



TOTAL NUMBER OF BORROWERS



NUMBER OF BORROWERS BY PRODUCTS



CONSUMER RIGHTS PROTECTION

One of the most important directions for the company is the protection of consumer rights, which means transparent, reasonable and high-quality financial services. MBC customer is always timely and fully informed about products and services. Our attitude towards clients is based on high standards of professional ethics and moral values. The company has a separate unit for service quality, which monitors the rules of behavior of employees, and ensures the creation of the most comfortable environment for clients.

RESPONSIBLE MARKETING AND COMMUNICATION

Responsible marketing and communication with consumers and the public is an important part of corporate responsibility and sustainability.
In order to communicate with customers, the company uses various means of marketing communications, among them advertising, public relations, direct marketing, and sponsorship. The main communication channels are: the outdoor advertising, radio, SMS, digital media and television.

MBC's marketing communications are based on generally accepted ethical standards, and are also in full compliance with the laws and regulations. In particular:

• When offering a financial product, the customer is provided with accurate, reliable and complete information about the features of the financial product;
• When advertising a loan, the offer explains the important parameters determining the price of the financial product, including the effective interest rate;
• While using different parameters to determine the price of a financial product in the advertisement (except verbal offer), all the parameters, including the effective interest rate, must be visually identical;
• On the company website, information is constantly posted or updated regarding the conditions of loans and other products. Further, in order to fully inform our customers, samples of the contracts for each product are placed on the website;
• Only non-discriminatory content is used in marketing communications;
• Our marketing practices challenge gender stereotypes.

CONSUMER RESEARCH

An important part of responsible customer relations is researching their opinions and expectations. Customer satisfaction is a core value of MBC, and we constantly seek to ask our customers' opinions. On the one hand, such studies allow us to create customer-oriented products and services or to improve existing ones, and on the other, it means we are in constant contact with our customers, which enables us to learn about their requirements and needs. In this way, we contribute to increase their satisfaction levels, which, in the end, helps us to establish a long-term and transparent relationship with them.

1. NPS SURVEY - CUSTOMER LOYALTY INDEX SURVEY (NPS 2021-88)

The purpose of the Customer Loyalty Index Survey was to reveal our customers' attitudes towards the company and, in the case of dissatisfied customers, to determine the reasons for that disatisfaction so as to improve the customer experience and overall relations with us. Further, on the basis of the mentioned research, it will be possible to improve procedures, products and services, and adapt them to the needs of our customers.

2. SATISFACTION SURVEY

We plan to conduct a customer satisfaction survey in 2022. This research will allow us to determine the weaker and stronger points of the company, to promptly identify and eliminate problems, and in this way to keep our existing customers and increase their degree of loyalty. Researching the satisfaction of long-term customers is also important in order to make a positive impression on our new customers, taking into account existing customers' experiences with us.

CUSTOMER SUPPORT AND PROMOTION OF CUSTOMER ACTIVITIES

An important part of MBC customer care is to support and facilitate the activities of micro and small entrepreneurs and farmers. Within the framework of that support, we take care to financially educate them, as well as to promote their activities and assist in their public communication.

FINANCIAL EDUCATION:

Through the "Financial Advisor" platform, our team offers free consultations to micro and small entrepreneurs and farmers, as well as other customers (see more information in the subsection: Financial Education).

PROMOTION OF CUSTOMER ACTIVITIES:

As part of our support to loyal customers, we prepare various types of communication materials and try to promote and popularize their activities.


GIORGI GIORGASHVILI
Farmer

This is Giorgi Giorgashvili, a long-time friend and client of MBC. He worked in Ministry of Environmental Protection and Agriculture of Georgia for 11 years and left his job voluntarily to pursue a career in his favorite activity: cow farming.

Giorgi fulfilled his dream, bought cattle, and currently runs a successful agribusiness on his own farm near Tbilisi. MBC helped Giorgi to buy Dutch and Swiss cows, those breeds which are distinguished by a high milk yield and the best quality milk in the world.

Giorgi says that what makes his work a success is a love and knowledge of the process. He continues to expand his own knowledge by consulting with vets, through on-the-job practice, and online researching.

RESPONSIBLE LENDING AND SUSTAINABLE FINANCING

Part of MBC's long-term strategy is to promote and provide access to financing to both individuals and micro/small entrepreneurs engaged in trade-entrepreneurial and agricultural activities, through transparent, fair and responsible lending.

A credit policy has been developed and implemented in the company which defines the priorities, goals, strategy, tactics, tasks, means and mechanisms of credit activities, as well as standards, principles, and rules of managing credit processes. The policy includes such issues as: consumer lending criteria, the loan processing process and approval principles, borrower solvency and credit risk assessment, fair pricing principles, and credit portfolio risk management.

In credit activities, the main task of the company is to assess the solvency and credit risks of the borrower/co-borrower, which is based on the ethical and high responsibility principles of MBC. The solvency assessment is based on a study of the borrower's proven income, expenses, assets, and liabilities, and a financial analysis. Through the financial analysis, the company evaluates the borrower's ability to repay the loan on the requested schedule. As such, taking into account the principles of responsible lending, we do not lend to borrowers who, according to our financial analysis, cannot pay back the loan. By implementing the mentioned principles, we try to prevent over-indebtedness and financial difficulties for borrowers with low creditworthiness. Within the framework of responsible lending, taking into account the long-term strategy of MBC, we plan to gradually introduce the principles of "sustainable financing" in the lending process, which means taking into account environmental, social and governance (ESG) factors during the evaluation of clients, and also to support the financing of projects that are based on sustainable and inclusive growth.

COMMUNITY SUPPORT

FINANCIAL EDUCATION

Financial education is an important direction of our corporate responsibility, which acquired special importance in the fight against the challenges of 2021. In terms of financial education, the "Financial Advisor" project is significant, the goal of which is to provide people with the knowledge and skills to help them manage their personal finances correctly and efficiently. As a part of the project, our team continues to share experience/-knowledge and offer free consultations to entrepreneurs, interested citizens, and sectors that have been particularly affected by the pandemic.

MBC is a member of the Eastern and Central European Microfinance Center (MFC). Membership of this organization gives us even more opportunities in the direction of financial education, and we share these opportunities with our customers. One such opportunity is the international financial education campaign "Lend Wisely". Lend Wisely seeks to increase the financial education of consumers and, in this way, to strengthen the protection of their rights. As part of the campaign, MBC created visual and textual material in Georgian, including informative video clips, advice posters and varied interesting and necessary content for financial education, and made it available to consumers for the purpose of sharing international experience.

The company also actively cooperates with the National Bank of Georgia and participates in activities organized in relation to financial education, among them Global Money Week, International Consumer Rights Protection Day, blog and video contest "Know your Rights, Be Protected", workshops for students (Seb, BTU, Youth Parliament), innovation camps, and we also cooperate with Finedu.

WOMEN’S EMPOWERMENT

More and more facts and data prove that gender equality and the UN Sustainable Development Goals cannot be successfully achieved without women's economic empowerment. Therefore, together with the Georgia office of UN Women, in order to ensure sustainable change and create an environment conducive to women's economic empowerment, MBC has developed an action plan which is being successfully implemented.

In 2021, MBC continued to help victims of violence and abused women. The procurement policy was refined and priority was given to women entrepreneurs who need special support in the post-pandemic period, as well as to provide financial assistance to young women who are victims of violence (for the purchase of personal computers, purchase of personal items, payment of apartment rent).

Every year, MBC joins the global campaign against gender-based violence, which is implemented by UN Women, a most important problem around which the whole world unites annually.The private sector has an important role to play in overcoming gender violence. We, as a signatory to the principles of women's empowerment, who strive to empower women, realize that this goal cannot be achieved without the elimination of gender-based violence. That is why we try to take steps to promote a violence-free environment both inside and outside the organization, to raise awareness about this problem, to promote the services that exist against violence, and to support victims of gender-based violence.

YOUTH SUPPORT

MBC, as a financial institution with corporate social responsibility, pays special attention to the promotion of education and the support of young people. Economic empowerment and helping them to realize their potential is very important for us. This strategic direction supports the 4th, 5th, 8th, 9th and 10th goals of the United Nations Sustainable Development.

One of the main reasons for the high unemployment rate in Georgia is the mismatch between the skills young people have and those which are required for employment. In this regard, it is necessary to improve the job forecasting and career counseling system, something which the human resources unit of MBC is actively involved in, and which, within the framework of the "Financial Advisor" project, provides free counseling to young people and social enterprises.

It is necessary to raise the quality of formal, informal, and professional education, which will significantly reduce the imbalance in the labor market. In this direction, MBC has a series of regular trainings for interns and interested young people, as well as for startups who want to use the company's products.

For better integratation of young people into the labor market, it is essential to support them in the transition from education to employment. For this purpose, an effective step we have taken is to refine our internship programs, introduce modern assessment methods, and ensure active cooperation with the UN Global Compact Network and UN Women. We also promote the implementation of alternative and innovative initiatives for young people, especially for vulnerable groups, by creating jobs specifically for them.

ENVIRONMENTAL RESPONSIBILITY

Environmental protection is among the most important parts of the company's strategy, and is one of its main priorities. The company's goal is to reduce the negative impact of its activities on the environment, to ensure waste recycling, and to be involved in cleaning and recycling actions. The management of MBC ensures the coordination and control of the company’s environmental policy, and systematically supervises and updates the rational use of natural resources.

MBC allocates human and financial resources to implement planned activities in terms of environmental education and awareness raising, and informs consumers, investors and all interested parties about planned environmental activities and initiatives.
It is especially important for the company to plan sustainable environmental activities, involve employees in these activities, and discuss and implement their initiatives.

In order to better manage the impact on the environment, we have started working on an environmental policy document. To develop the mentioned document, we are cooperating with the Georgia Network of Global Agreement.

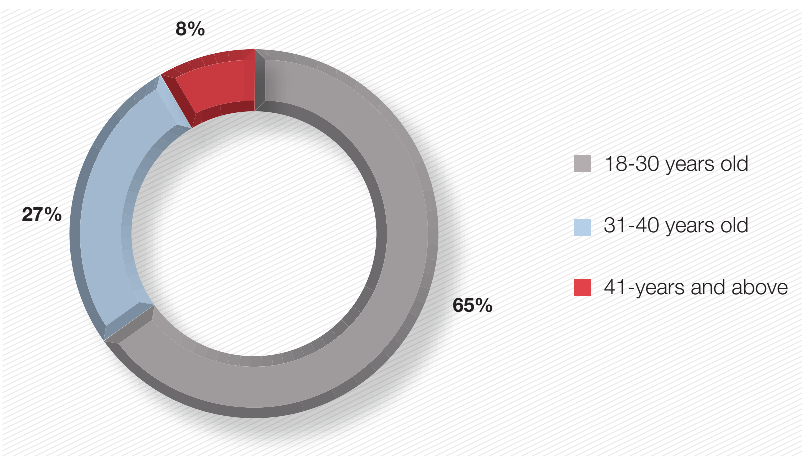
OUR TEAM

The basis of MBC's success is its employees, who are guided by recognized corporate governance principles and ethical norms in their daily activities. The personnel management strategy is focused on a high motivation system and promotion of healthy competition.

MBC pays special attention to the creation of safe working conditions and an employee-oriented working environment for its employees. We create a gender-balanced work environment and support the empowerment of women in the workplace.

Our employees[1] :

NUMBER OF EMPLOYEES	SHARE OF FEMALE EMPLOYEES	SHARE OF WOMEN IN MANAGERIAL POSITIONS	SHARE OF WOMEN IN MANAGEMENT
224	61%	50%	60%



AVERAGE AGE: 29

HEALTH AND SAFETY AT WORK

For MBC, the health and safety of its employees is critically important. In accordance with the legal requirements of Georgia, the company has a labor safety specialist who is responsible for ensuring compliance with safety norms in the workplace. In case of any kind of incident or discovered technical malfunction, employees are obliged to inform the relevant unit. The company constantly assesses the security risks of the infrastructure, analyzes the needs and draws up an action plan to eliminate inconsistencies.

The company has an emergency situation management plan, and taking into account the prerequisites of all possible incidents, said plan is constantly refined and updated. For ensuring the health and safety of employees, in all offices is a structural diagram of the message with a telephone directory and contact numbers of the city rescue services, posted in a visible place. Further, all facilities meet fire protection requirements and are equipped with fire protection devices.

SALARY AND BENEFITS

Along with the basic amount, MBC offers incentive schemes to employees, which provide the opportunity for them to earn salary supplements or bonuses. The salary supplement/bonus depends on the performance of the set plans and is an opportunity for employees to earn an increasing salary. The company offers its employees a pleasant working environment, the opportunity to participate in various social events, career growth prospects, professional and personal development opportunities, and paid maternity leave. One of MBC's main goals is to ensure the physical, mental and social well-being of its employees. To achieve this, the company uses all available resources.

COMPLAINTS MANAGEMENT

In order to record complaints from employees, MBC introduced an online platform called "Employee's Voice", through which employees, with complete anonymity, can write to the human resources unit, top managers and directors with any remarks or about any, dissatisfaction or awareness of misconduct they may have. This gives employees significant motivation to form a more successful company; to create a comfortable and friendly working environment where each of us is satisfied and happy.

DIVERSITY AND EQUAL OPPORTUNITY

We believe that all employees are equal regardless of age, disability, sex, marital status, gender identity, nationality, religion, or other characteristics. We respect diversity, and we strive to create a work environment where our employees have equal opportunities, are protected from discrimination and feel valued.

In order to introduce the above-mentioned principles in a more systematic way, in 2022, in cooperation with UN Women Georgia, we plan to develop a document reflecting the company's policy, the goal of which is to create a gender-balanced and discrimination-free work environment in MBC.

EMPLOYEE INVOLVEMENT AND COMMUNICATION

Employees are a critically important factor in our providing efficient and qualified services to our customers. That is why we try to be in constant communication with our employees, to listen to them, improve their working environment and pay due attention to their expectations giving them the opportunity to share their opinionw with us qnd so increase their involvement in the company's activities and decision-making processes. In order to give employees the opportunity to submit new ideas and recommendations regarding various initiatives, we have created an online platform called "Employee's Voice", which employees can use at any time to fill out an application and give us their opinion.

In addition, we conduct various annual surveys to determine the opinions of our employees:

• Employee satisfaction survey

In order to determine the level of employee satisfaction and involvement, we conduct an employee satisfaction survey every year. The purpose of the needs analysis identified as a result of the research is to create a better working environment and conditions for employees. In 2021, 70% of employees participated in the survey. As a result of the research, the attitude of employees towards such issues as working environment and conditions, stress related to the working environment, compliance with and attitude to the company's organizational culture and values, loyalty to the company, company's management related to the pandemic, etc. The results of the annual survey are presented to the company's management and the appropriate action plan and goals are set.

• Study of the employee salary system

In 2021, MBC conducted a survey of the employee salary system in order to evaluate the existing system and, if necessary, to improve it. 81 service center employees (60%) participated in the research. As a result, such issues as knowledge of the remuneration instruction of the employees, the content of the remuneration instruction and the need for improvement, and the remuneration conditions and the need to change or improve them, were evaluated.

EVALUATION OF WORK PERFORMED

In MBC, there is an annual evaluation of the work performed by our employees, which is carried out in compliance with the principles of fairness, objectivity, transparency, impartiality, inadmissibility of conflicts of interest, trust, and the proportionality of MFO and employee's interests. In 2021, the evaluation system was improved. Based on the updated system, not only is the work performed evaluated in accordance with the set goals, but also the employees are evaluated according to the competence required to perform their missions and functions. A new component has been added to the evaluation system which identifies employee development needs, makes plans, and develops employees based on those plans.

EQUAL OPPORTUNITIES FOR EMPLOYMENT, ATTRACTING NEW PERSONNEL

In MBC, the recruitment system is in full compliance with the principles of equality. A healthy, competitive and transparent environment for personnel recruitment has been implemented in the company, which includes candidate search, evaluation and selection. In the process of hiring, both external and internal candidates are considered, and the final evaluation is made by taking into account the relevant education, work experience, professional knowledge, business qualities and skills required for the vacant position. An internship program has been introduced in the company, the purpose of which is to train and develop novice personnel so as to determine and improve their career advancement opportunities. MBC offers internships to undergraduates and graduates, and employs these interns after successful completion of the internship program. The company constantly cooperates with various higher education institutions and actively participates in employment forums.

TRAINING, DEVELOPMENT, ADAPTATION OF EMPLOYEES

MBC has an employee adaptation and socialization program, the goal of which is to help new employees to adapt to the MBC work environment and their new colleagues as quickly as possible, to familiarize themselves with the corporate culture and rules of the company. In MBC, we constantly take care of the development and career growth of our employees, systematically trying to implement various qualification trainings and educational programs. Experienced employees of the company are actively involved in the process of training and development of new employees. The company also financially supports the training of employees in various external training programs. In 2021, around 180 employees underwent training and retraining (service plus, sales, processes, products, personal development, management, etc.).

Among the main priorities of MBC is to care for the development of its employees, to reveal their abilities as much as possible, to determine additional needs for professional development and to create opportunities for them for career advancement.

The company financially supports the holding of trainings for the purpose of raising qualifications and professional development.

Even in the conditions of the crisis caused by the pandemic, employees were the main value for the company, and taking care of them was MBC's main goal, which was manifested, first of all, by maintaining 100% of jobs and salaries, taking care of the safety of employees, and continuing their development.

EMPLOYEE MOTIVATION

Employee motivation and encouragement is the main priority of the company. This includes both tangible and intangible systems. Material systems include: bonuses, an annual bonus, health insurance (fully paid by the company), a salary increase system, various competitions, trainings, additional rewards, corporate events, and sports, field events and other social activities. Intangible motivational systems include employee recognition, such as letters of thanks and certificates, identification of the best employees, public and personal recognition programs, employee involvement programs, and more. Since its establishment, the company has been increasing the salaries of its employees at least once a year. From January 1, 2019, along with the implementation of the cumulative pension reform, the company decided to pay the pension contribution amounts for employee. As a result of company and state contributions, the welfare of MBC employees is growing, which is one of the main goals of our social policy.

EMPLOYEE ASSISTANCE FUND AND PROJECT "KINDNESS IS CONTAGIOUS"

The MBC employees' fund was created on the initiative of the employees themselves. Employees contribute 1% of their salary to the fund every month, and the company adds the same amount to the fund. The funds accumulated finance important issues as needed, among them: providing material assistance to employees and/or their family members, including material support for employees and/or their family members affected by illness and/or various social problems, financial help following natural events and/or accidents, financing of various social projects at the initiative of employees, etc.

MBC's prime direction is the development of remote products and services. Using modern technologies, the company offers customers new and simplified services that save their time and help MBC to position itself as an innovator.

- In order to establish a remote business relationship with its customers, a remote identification procedure was introduced in MBC, which we agreed with the National Bank of Georgia. This service allows users to save time and costs and to receive services without needing to visit MBC;
- In 2020, the company started working with a remote loan request platform and was one of the first in the Georgian microfinance market to offer customers the opportunity to fill out an application remotely and receive an answer without leaving home. At the first stage the mentioned innovation was introduced in the direction of auto loans, and at the current stage, it is being generalized to include absolutely all types of credit products.
- In 2021-2022, another innovative product was created at MBC - "Online currency conversion", which includes a virtual personal space and allows customers to remotely fix the task for cashless conversion and carry out an operation without leaving home. "Online currency conversion" offers a favorable exchange rate to existing and potential customers. Both natural persons and legal entities can receive the service;
- In 2021, another remote product was developed - the SMS service (a service similar to the banking product "SMS Bank"), which allows MFO's users to quickly and easily, by means of a short text message, at the desired time, without visiting a service center, receive information and news regarding MBC's services, in connection with the implemented transactions.
- From the point of view of innovation management, we also highlight marketing activities that fully comply with modern standards, which on the one hand implies constant and, most importantly, two-way communication with the customer, and on the other hand, the introduction of such products or technologies that significantly simplify the public's access to financial resources. MBC's marketing team uses virtually all digital channels to communicate with customers.
- In 2020-2021, MBC, taking into account international practice, introduced individual landing pages for all products, which allow the customers to get comprehensive information about the services on one platform and to request financing by filling out a simple application form. This change increased the percentage of application filling among site visitors by approximately 3-4 times.
- We continue to work intensively on the introduction of Internet Banking, and plan to offer our customers a new platform by the end of 2022.

Along with creating and introducing innovative products, it is also important to introduce products that promote innovation. "Mama Bono Georgia" is such an innovative project, created for the economic empowerment of women and which uses an innovative approach for this purpose. The project was initially implemented by the Japanese, and in the process of working in Georgia, the project conceived by the Japanese underwent some changes.

Within the framework of the project, retraining of mothers will begin and trainings and workshops will be held, following which they will undergo paid internships in various companies. In Georgia, this project will be of a social nature, because retraining is completely free. In the first year, MBC fully finances the training costs. A survey was carried out in 2021, in which 393 women participated. More than 60% of them have three or more children. Only 12% have work experience, although more than 80% have higher education. Their main challenge is attending trainings, as more than 80% of mothers cannot leave their children and want to study remotely. As a result of the survey, trainings and workshops were planned.

It is also important that the Georgian "Mothers for Mothers" project carries the concept that, mothers who have already overcome these challenges and are currently involved in active economic activities will be involved as trainers. The project is mainly voluntary (pro bono) and trainers and companies become involved in it in this format.

Managing innovation is one of the main challenges of modern management, and MBC is successfully tackling this challenge, as demonstrated by the company's results in 2021, and which is even more ambitiously reflected in future plans. The company has defined the development and management of innovations as one of its priorities for achieving its goals and objectives.

In 2021, MBC was significantly strengthened in terms of data protection and security, as well as the digitization of operational processes.

In 2021, the company successfully introduced a Disaster Recovery (DR) system, i.e. a backup server system. DR provides a sustainable work environment in which it is possible to quickly switch from primary to backup IT systems in your own data processing center during critical outages. As a result, the company is protected from such circumstances as, for example, fire or natural disaster.

In the same year, a fixed assets description module was introduced in the company, which facilitated the management of the mentioned process for both the financial and the logistics departments. This program is integrated with the Alta software system, simplifying the work process and significantly reducing work time. It has also made it easier to control the movement of fixed assets on the company's balance sheet.

A utility payments module was also introduced and integrated into MBC’s core system. The software module allows us to serve customers in a shorter time.

In 2021, with the initiation of the Labor Inspectorate, a law was adopted on the recording of working and overtime hours of employees. For this purpose, a special form was developed, where the working time is recorded every month (including overtime hours). In order to comply with the legislation, the "table module" was integrated into MBC’s HR system for automatization of the mentioned process, which provides a high standard of security for both the employee and the company.

At the end of 2021, we started working on the introduction of a ticketing system. This is a Manage Engine that will give us a way to help employees solve problem more quickly, thus contributing to the smooth operation of IT support and the optimal allocation of resources.

Together with Manage Engine, a project management module will be introduced within the organization, where MBC’s digital projects will be planned and managed, the complete cycle of project management will be described, the participating parties will be informed at each stage of the project, and project deadlines will be monitored. All this will allow the company to estimate the resources, time and stages allocated for each project.

For additional security, in 2022, based on the company's development plans, we are going to introduce one of the best antivirus and e-mail antispam systems in the world.

In IT infrastructure, we plan to update our servers, as well as to debug the VMware VSAN. VMware vSAN is an enterprise-class software data storage space for virtualization. The system provides improved data processing speed.

MBC is further set to introduce the SharePoint platform, which will allow us to create a portal, which will become both a unified center for employee communication and a place to store official information.

CORPORATE GOVERNANCE

The corporate management of MBC, as a Joint Stock Company, complies with international standards, principles and best practices.
MFO has a well-defined organizational structure that ensures accountability, proper delegation of accountability and authority, stable administration, effective risk identification, management and reporting, adequate internal control, financial planning and reporting, and relevant policy-procedures. For the stable functioning of MBC, there is a strict separation of powers between the supervisory, executive and controlling bodies, whose separate functions fully ensure the management of MFO and are not duplicated.

The governing bodies of MFO are: The General Meeting of Shareholders, the Supervisory Board, and the Directorate.
The General Meeting of Shareholders is the highest governing body of MFO. The rights of shareholders are defined by the charter of MISO and are regulated by the legislation of Georgia. MBC's activities are overseen by a Supervisory Board elected by the General Meeting of Shareholders. The board makes decisions on strategic directions for the development of MFO, directs the activities of the executive bodies and is accountable to the General Meeting of Shareholders.

The Supervisory Board consists of 5 members, one of whom is an independent member and chairs the Audit Committee. The main functions of the Supervisory Board are to protect the rights of shareholders and their capital, to define MFO's strategy, to approve the organizational structure, to supervise the executive bodies, and to continuously assess their role in establishing and maintaining a healthy corporate environment, to ensure adequate conditions for effective internal control and risk management, to monitor the Remuneration System, to approve the Long-Term Strategic Development Plan, risk-appetite, give budget approval, and execute control.

In the Supervisory Board there is an Audit Committee whose main function is to encourage the functioning of internal audit and external auditors. The purpose of the Audit Committee is to conduct the internal audit and financial reporting process, monitor the internal control system, and ensure compliance in the organization's work with legislation and regulations, which allows the Supervisory Board to receive reliable information on the basis of which it will be able to make effective governance decisions.
The powers, functions and responsibilities of the Audit Committee are defined by the legislation of Georgia and the Statute on the Audit Committee, which is approved by the Supervisory Board.
The day-to-day management of MFO is carried out by a directorate that ensures the achievement of the company's strategic goals. The Directorate is collectively accountable to the Supervisory Board. The members of the Directorate are appointed by the Supervisory Board. The Directorate, among other functions, implements business strategies, creates effective financial and non-financial risk management systems, facilitates the development and establishment of a risk culture, processes and controls, and provides the Supervisory Board with the information needed to perform its functions. The Directorate is responsible for the division of functions and responsibilities of the staff, as well as the establishment of an effective governance structure that ensures accountability and transparency within the company.

The Directorate consists of 5 members – The Chief Executive Officer, Chief Credit Officer, Chief Operating Officer, Chief Financial Officer and Chief Risk Officer.
The rules, terms and regulations of the activities of the Directorate are established by the legislation of Georgia, the MFO charter, and the Statute of the Directorate.

In the company, there operates an Internal Audit team, which is accountable only to the Supervisory board. The head and members of Internal Audit are appointed by Supervisory Board.
The main task of Internal Audit is to assist the Supervisory Board in overseeing the effectiveness of company risk management, quality control, and oversight of financial and economic activities. The Head of Internal Audit ensures the preparation / implementation of the annual plan and audit programs, as well as the organization and management of audit activities, and the preparation of periodic reports to be presented to the Supervisory Board.

Internal Audit verifies the accuracy and reliability of the company's management mechanisms, accounting and financial reporting, operating systems, risk management and internal control mechanisms, as well as their compliance with legislation and international standards.
The rules, terms and regulations for the appointment of members of the Internal Audit is established by the legislation of Georgia, the Charter and the Statute on Internal Audit.
At the end of the year, the Supervisory Board employs the services of an independent external auditor to assess the reliability of MFO's financial operations and annual reporting.
MBC recognizes the importance of staffing governing bodies with people of different genders, nationalities, appointing them to appropriate positions based on their work experience, education, professional knowledge, and required skills.
The Supervisory Board has one woman out of five members, while the Directorate consists of three women out of five members.

TARAS NIZHARADZE
Chairman of the Supervisory Board

Since 2012, Taras Nizharadze has been a partner of JSC Microfinance Organization "Micro Business Capital" and Chairman of the Supervisory Board.
He has been active in business since 1990. He is the founder and manager of private companies in the fields of banking, tourism, agriculture, natural resources and energy.
From 1998 to 2012, Taras was one of the shareholders of JSC Basisbank, a member of the Supervisory Board and later Chairman.
Since 2006 he has been a co-founder and director of Energo-Aragvi Ltd. He is leading one of the most successful projects in the field of hydropower in Georgia.
In 1986, Taras graduated from the Faculty of Physics of Moscow State University and received a Bachelor's and Master's degrees in semiconductor physics. He started his scientific career as a researcher at the Republican Center for Structural Studies based on the Georgian Polytechnic Institute.

GIA PETRIASHVILI
Member of the Supervisory Board,
Chief Executive Officer

Gia Petriashvili, after many years of experience in banking sector, founded JSC Microfinance Organization "Micro Business Capital" (MBC) in 2012. Since its establishment, has held the position of Chief Executive Officer, and, since 2017, has been a member of the Supervisory Board of the same organization.
In 1993, Gia became the founder and the first chairman of the Supervisory Board of JSC Basisbank, and from 1998 to 2012, he was a member of the Supervisory Board of the same bank.
From 1999, he worked in the OPIC-funded investment fund "Caucasus Fund", and in 1999-2002 he was the director of the Tbilisi office of LLC Caucasus Advisors.
From 2002 to 2005, Gia was the founder and managing director of Entertainment Center Maidan Ltd. From 2006 to 2009, he founded and managed real estate investment company "Solo-Laki Investor" Ltd.
Gia holds a Master's and Doctorate degree in Theoretical and Mathematical Physics of Moscow State University. He started his scientific career as a researcher at the Institute of High Energy Physics of Tbilisi State University. He was also a visiting researcher at the Moscow Institute for Nuclear Research.

MURMAN AMBROLADZE
Member of the Supervisory Board

Murman Ambroladze has been a partner and member of the Supervisory Board of JSC Microfinance Organization "Micro Business Capital" since 2014.
In 1993, together with Gia Petriashvili, he founded the commercial bank - JSC Basisbank and was its director for many years. From 2008 to 2012 he was a member of the Supervisory Board of JSC Basisbank.
From 2012 to present, he has been the founder and director of Ambro-Soft Ltd.
Murman holds a Master's and Doctorate degree in Mathematics of the Moscow State University and is the author of a number of scientific papers. He started his scientific and pedagogical career at the Department of Higher Mathematics of Tbilisi State Technical University.

NATALIA RUKHADZE
Member of the Supervisory Board

Since 2017, Natalia Rukhadze has been a member of the Supervisory Board of JSC Microfinance Organization "Micro Business Capital".
Natalia graduated from the St. Petersburg Academy of Chemistry and Pharmacy and received a Master's degree in Biotechnology. Natalia started her career in Russia, majoring in industrial biotechnology, and continued her research work in Boston (USA) with Biogen Ltd.
In 2000, she got a Master's degree from the Massachusetts Institute of Technology School of Management, after which she worked in Sloan Biotechnology with Accenture and Millennium Pharmaceuticals, in the fields of project management, new product development and marketing.
In 2006, Natalia came to Georgia with her family and started entrepreneurial activity.
In 2008, she founded the Family Property Management Company in London and managed the multimillion-dollar assets of the successful enterprises for six years.
Since 2014, Natalia has been running a private family business internationally.

VALERI CHECHELASHVILI
Independent member of the SupervisoryBoard

Valeri Chechelashvili graduated from the Faculty of International Relations and International Law of Kiev State University majoring in International Economic Relations and he holds a PhD in International Economics.
Since 1989, he has worked in the field of diplomatic relations and held various positions in the Ministry of Foreign Affairs of Georgia - from the Second Secretary to the position of Deputy Minister. In 2005, Valeri was the Minister of Finance of Georgia, and in 2005-2007, he held the position of First Deputy Minister.
In 1994-1998, he was the Ambassador Extraordinary and Plenipotentiary of Georgia to Ukraine, and in 2004-2005 to the Russian Federation. In 2000-2004, Valeri held the position of Secretary-General of the Black Sea Economic Cooperation Organization, and in 2007-2016 - the position of Secretary-General of the Organization for Democracy and Economic Development.
From 2000 to 2004, as Secretary General of the Black Sea Economic Cooperation Organization, Valeri served on the Board of Directors of the Black Sea Trade and Development Bank (its affiliated body under the Charter of the Black Sea Economic Cooperation Organization). From 2002 to 2012, he was a shareholder of Basisbank.
Since 2016, Valeri has been a Senior Researcher at the Georgian Foundation for Strategic and International Studies.
He has been awarded various medals and orders, and is also the author of several dozen publications in the field of regional economic cooperation and international relations.

GIA PETRIASHVILI
Member of the Supervisory Board,
Chief Executive Officer

Gia Petriashvili, after many years of experience in banking sector, founded JSC Microfinance Organization "Micro Business Capital" (MBC) in 2012. Since its establishment, has held the position of Chief Executive Officer, and, since 2017, has been a member of the Supervisory Board of the same organization.

In 1993, Gia became the founder and the first chairman of the Supervisory Board of JSC Basisbank, and from 1998 to 2012, he was a member of the Supervisory Board of the same bank.

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From 2002 to 2005, Gia was the founder and managing director of Entertainment Center Maidan Ltd. From 2006 to 2009, he founded and managed real estate investment company "Solo-Laki Investor" Ltd.

Gia holds a Master's and Doctorate degree in Theoretical and Mathematical Physics of Moscow State University. He started his scientific career as a researcher at the Institute of High Energy Physics of Tbilisi State University. He was also a visiting researcher at the Moscow Institute for Nuclear Research.

GIORGI GHVALADZE
Chief Credit Officer

Giorgi Ghvaladze has been heading the credit department of JSC Microfinance Organization Micro Business Capital since 2013. He has many years of experience working in the field of banking and finance. In 2005 he started his career at Bank Constanta as a lending expert, later as a branch manager, and also as head of the Mini and Mini-Agro departments.

Giorgi graduated from Tbilisi State University and has a Bachelor's degree in Economics. In 2006 he was awarded a Master of Business Administration (MBA) from the Caucasus Academic Center (CAC), and since 2014, he has been a PhD student in Business Administration at the Faculty of Engineering of the Georgian Technical University.

ETER CHACHIBAIA
Chief Operating Officer

Eter Chachibaia has been a member of the team of JSC Microfinance Organization Micro Business Capital since 2013. Her area of responsibility as Chief Operating Officer includes: Operations Products and Services, Call Center, Marketing, PR and CSR, Logistics and Procurement. For many years Eter was employed by JSC Basisbank and HSBC-Bank Georgia in the field of operational, retail and corporate services.

In addition, at various times, she has been active in international organizations and the non-governmental sector.

Eter has a Master's degree in International Economics.

TATIA JAJANASHVILI
Chief Financial Officer

Tatia Jajanashvili joined the MBC team in 2014 and heads the units of Treasury, Accounting, Financial Reporting and Information Technology.
From 2011 to 2014, she held the position of Senior Officer of Management Accounting and Analysis in Bank Constanta.
Tatia is a graduate of Caucasus University and holds a Bachelor's degree in Finance. In 2020, she was awarded a Master's degree in Management Consulting by Grenoble Business School.
Tatia was chosen for Forbes 30 Under 30 in the Finance category in 2019.

NINO DEVDARIANI
Chief Risk Officer

Nino Devdariani has been the Chief Risk Officer of MBC since 2016 and heads the Credit and Operational Risks, as well as the AML and Legal Units.
From 2008 to 2013, she worked at the National Bank of Georgia in the field of risk management and control of international reserves, and in 2014-2016 she worked at the Ministry of Finance of Georgia in the field of public debt risk management.
Nino holds a Master's degree from Williams College (USA) (2014) and is a World Bank Fellow.

GIA PETRIASHVILI
Chief Executive Officer

FINANCIAL STATEMENT

Together with Independent Auditors' Report
For the year ended 31 December 2021

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INDEPENDENT AUDITORS’ REPORT

To the Shareholders and Management of JSC MFO Micro Business Capital Opinion

We have audited the financial statements of JSC MFO Micro Business Capital (the “Organisation”), which comprise the statement of financial position as at 31 December 2021, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organisation as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organisation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organisation's internal control;
• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organisation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report.
However, future events or conditions may cause the Organisation to cease to continue as a going concern;
• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

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

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

Ivane Zhuzhunashvili (Registration # SARAS-A-720718)
For and on behalf of BDO LLC
Tbilisi, Georgia
5 May 2022

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021 (In thousands of Georgian Lari)

	NOTE	31 DECEMBER 2021	31 DECEMBER 2020
ASSETS			
CASH AND CASH EQUIVALENTS	5	13,879	2,673
LOANS TO CUSTOMERS	6	72,817	66,858
OTHER ASSETS	7	1,545	1,624
DEFERRED TAX ASSET	8	394	356
INTANGIBLE ASSETS		327	237
RIGHT-OF-USE ASSETS	9	5,328	4,050
PROPERTY AND EQUIPMENT	10	2,880	2,404
TOTAL ASSETS		**97,170**	**78,202**
LIABILITIES			
SUBORDINATED BORROWINGS AND OTHER BORROWED FUNDS	11	70,146	54,928
LEASE LIABILITIES	9	5,941	4,947
OTHER LIABILITIES	12	790	765
TOTAL LIABILITIES		**76,877**	**60,640**
EQUITY			
SHARE CAPITAL	13	2,250	2,225
SHARE PREMIUM	13	1,117	996
PREFERENCE SHARES	13	7,347	7,347
RETAINED EARNINGS	13	9,579	6,994
TOTAL EQUITY		**20,293**	**17,562**
TOTAL LIABILITIES AND EQUITY		**97,170**	**78,202**

The financial statements for the year ended 31 December 2021 were approved on behalf of the management on 5 May 2022 by:

General Director ------------------------------------ Gia Petriashvili

Financial Director ------------------------------------ Tatia Jajanashvili

INCOME REPORTING

For the year ended 31 December 2021 (In thousands of Georgian Lari)

	NOTE	2021	2020
INTEREST INCOME	14	20,123	15,858
INTEREST EXPENSE	14	(7,270)	(6,290)
NET INTEREST INCOME		**12,853**	**9,568**
FEE AND COMMISSION INCOME		1,923	1,647
NET FOREIGN EXCHANGE GAIN/(LOSS)		1,356	(3,776)
NET GAIN/(LOSS) FROM TRADING IN FOREIGN CURRENCY		(3,515)	1,955
OPERATING INCOME		**12,617**	**9,394**
IMPAIRMENT LOSSES ON DEBT FINANCIAL ASSETS	6	(458)	(748)
PERSONNEL EXPENSES		(5,836)	(4,238)
DEPRECIATION AND AMORTISATION		(1,428)	(1,275)
OTHER OPERATING EXPENSES	15	(1,960)	(1,498)
PROFIT BEFORE INCOME TAX		**2,935**	**1,635**
INCOME TAX EXPENSE	8	(350)	(152)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,585**	**1,483**

STATEMENT OF CHANGES IN EQUITY

1 December 2021 (In thousands of Georgian Lari)

	SHARE CAPITAL	SHARE PREMIUM	PREFERENCE SHARES	RETAINED EARNINGS	TOTAL
AT 31 DECEMBER 2019	**2,200**	**900**	**7,347**	**6,252**	**16,699**
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY					
ISSUE OF ORDINARY SHARES	25	96	-	-	121
	25	96	-	-	121
TOTAL COMPREHENSIVE INCOME FOR THE YEAR					
DIVIDENDS	-	-	-	(741)	(741)
PROFIT FOR THE YEAR	-	-	-	1,483	1,483
	-	-	-	742	742
AT 31 DECEMBER 2020	**2,225**	**996**	**7,347**	**6,994**	**17,562**
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY					
ISSUE OF ORDINARY SHARES	25	121	-	-	146
	25	121	-	-	146
TOTAL COMPREHENSIVE INCOME FOR THE YEAR					
PROFIT FOR THE YEAR	-	-	-	2,585	2,585
	-	-	-	2,585	2,585
AT 31 DECEMBER 2021	**2,250**	**1,117**	**7,347**	**9,579**	**20,293**

For the year ended 31 December 2021 (In thousands of Georgian Lari)

CASH FLOWS FROM OPERATING ACTIVITIES	NOTE	2021	2020
PROFIT BEFORE INCOME TAX		**2,935**	**1,635**
ADJUSTMENTS FOR:			
IMPAIRMENT LOSSES ON DEBT FINANCIAL ASSETS	6	458	748
NET CHANGE IN INTEREST ACCRUALS		179	(23)
RENT CONCESSIONS		(6)	(100)
MODIFICATION (GAIN)/LOSS OF CONTRACTUAL CASH FLOWS OF FINANCIAL ASSETS	14	(461)	790
DEPRECIATION AND AMORTISATION		1,428	1,275
BONUS, AUDIT AND OTHER FEE ACCRUALS		460	74
NET GAIN FROM SALE OF REPOSSESSED PROPERTY		(27)	(8)
NET FOREIGN EXCHANGE (GAIN)/LOSS		(1,356)	3,776
WRITTEN-OFF PROPERTY AND EQUIPMENT		-	5
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**3,610**	**8,172**
CHANGES IN OPERATING ASSETS AND LIABILITIES			
LOANS TO CUSTOMERS		(5,985)	(9,302)
OTHER ASSETS		(35)	(188)
OTHER LIABILITIES		(428)	311
NET CASH USED IN OPERATING ACTIVITIES BEFORE INCOME TAX		**(2,838)**	**(1,007)**
INCOME TAX PAID		(350)	(370)
CASH FLOWS USED IN OPERATING ACTIVITIES		**(3,188)**	**(1,377)**
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASES OF PROPERTY AND EQUIPMENT	10	(881)	(498)
PURCHASES OF INTANGIBLE ASSETS		(184)	(69)
CASH FLOWS USED IN INVESTING ACTIVITIES		**(1,065)**	**(567)**
CASH FLOWS FROM FINANCING ACTIVITIES			
RECEIPTS OF OTHER BORROWED FUNDS	11	128,588	94,288
REPAYMENT OF OTHER BORROWED FUNDS	11	(112,141)	(91,803)
PROCEEDS FROM ISSUANCE OF ORDINARY SHARES		146	121
LEASE LIABILITIES PAID		(830)	(656)
DIVIDENDS PAID		-	(741)
CASH FLOWS FROM FINANCING ACTIVITIES		**15,763**	**1,209**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**11,510**	**(735)**
CASH AND CASH EQUIVALENTS AS AT THE BEGINNING OF THE YEAR		**2,673**	**3,046**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		(304)	362
CASH AND CASH EQUIVALENTS AS AT THE END OF THE YEAR		**13,879**	**2,673**

Interest received by the Organisation during the year ended 31 December 2021 and 2020 amounted to GEL18,371 thousand and GEL11,965, respectively.

Interest paid by the Organisation during the year ended 31 December 2021 and 2020 amounted to GEL6,575 thousand and GEL5,731 thousand, respectively.

1. GENERAL INFORMATION

ORGANISATION

MFO Micro Business Capital (the "Organisation) was established in Georgia as Joint Stock Company on 6 December 2012. Its principal activities are credit operations, cash operations, and foreign exchange transactions. The Organisation's activities are regulated by the National Bank of Georgia (the NBG). The Organisation's registration number is 404967078.

The Organisation aims to provide customer-tailored and accessible financial services to micro and small businesses and farmers, increase availability of funds and loan products, maintain long-term and transparent relations with customers. The Organisation, as a socially responsible financial institution, aims to contribute to the sustainable economic growth of Georgia.

The Organisation's highest management body is the General Shareholders' Meeting. Organisation's activities are supervised by Supervisory Board, whose members are elected by General Shareholders' Meeting. Organisation's daily activities are carried out by Organisation's Board of Directors, who are elected by the Supervisory Board.

The Organisation is wholly owned by members of the Shareholder Group. There is no ultimate controlling party of the Organisation as at 31 December 2021 and 2020. Detailed information is disclosed in Note 13.

The Organisation has 15 branches.

The Organisation's head office is located at 68 Queen Ketevan Avenue, Tbilisi, Georgia.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

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

The Organisation maintains its records and prepares financial statements in Georgian Lari (GEL), which is also the Organisation's presentation currency. Amounts in the financial statements are rounded in thousands, unless otherwise stated. The reporting period for the Organisation is the calendar year from January 1 to December 31.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying The Organisation's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 3. The principal accounting policies adopted in the preparation of the financial statements are set in the Note 20.

BASIS OF MEASUREMENT

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss are stated at fair value.

GOING CONCERN

These financial statements have been prepared on the assumption that the Organisation is a going concern and will continue its operations for the foreseeable future. The management and shareholders have the intention to further develop the business of the Organisation in Georgia. The management believes that the going concern assumption is appropriate for the Organisation.

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

A) NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS EFFECTIVE FROM 1 JANUARY 2021

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

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

B) NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE

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

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

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

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

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

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

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

OTHER

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

MEASUREMENT OF EXPECTED CREDIT LOSSES

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

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

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

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

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

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

ASSESSMENT OF COLLATERAL VALUES

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

TAXATION

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

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

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

GENERAL OBJECTIVES, POLICIES AND PROCESSES

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

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

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

CREDIT RISK

Credit risk is the risk of financial loss to the Organisation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Organisation has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:
• procedures for reviewing and approving loan credit applications;
• methodology for the credit assessment of borrowers;
• methodology for the credit assessment of counterparties;
• methodology for the evaluation of collateral;
• credit documentation requirements;
• procedures for the ongoing monitoring of loans and other credit exposures.

Loan credit applications are originated by the relevant credit officers and are then passed on to the credit committee members, according to credit policy. Credit Committee is responsible for the loan approval/rejection decision. Committee acts in line with the defined limits and standards, which are defined in credit policy and product specification. Analysis is based on a structured analysis, focusing on the customer's business and financial performance.

Credit officer is responsible for the accuracy, reliability and transparency of loan application, which includes information on client, detailed analysis of client's business and preliminary assessment of credit risks and etc. Based on certain criteria (clients' credit history, creditworthiness, financial position, business sustainability and etc) credit committee members review loan application.

For the year ended 31 December 2021 (In thousands of Georgian Lari)

The Organisation continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Organisation. Regular monitoring of loans allows the Organisation to mitigate credit risks. Collateral is another tool for credit risk mitigation.

Risk Management Department performs clients individual risk assessment as well as analysis of overall portfolio quality, credit concentration and market risks. Please see allowance for loans customers in Note 6.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of the possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	31 DECEMBER 2021	31 DECEMBER 2020
CASH AND CASH EQUIVALENTS (EXCLUDING CASH ON HAND)	10,985	1,275
LOANS TO CUSTOMERS	72,817	66,858
OTHER ASSETS	422	93
	84,224	**68,226**

LIQUIDITY RISK

Liquidity risk is the risk that the Organisation 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 Organisation 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 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.

The following tables show the undiscounted cash flows on financial assets, liabilities and credit-related commitments 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 assets, liability.

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

The maturity analysis for financial assets and liabilities as at 31 December 2021 is as follows (In thousands of Georgian Lari):

FINANCIAL ASSETS	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
CASH AND CASH EQUIVALENTS	13,879	-	-	-	**13,879**
LOANS TO CUSTOMERS	10,852	31,597	60,887	619	103,955
OTHER FINANCIAL ASSETS	422	-	-	-	422
DERIVATIVE FINANCIAL ASSETS					
-INFLOW	21,217	105	-	-	21,322
-OUTFLOW	(21,203)	(98)	-	-	(21,301)
	25,167	**31,604**	**60,887**	**619**	**118,277**
NON-DERIVATIVE FINANCIAL LIABILITIES					
OTHER BORROWED FUNDS	4,055	35,935	29,909	-	69,899
SUBORDINATED BORROWINGS	117	381	6,417	-	6,915
LEASE LIABILITIES	361	1,103	4,373	1,415	7,252
OTHER FINANCIAL LIABILITIES	272	377	-	-	649
	4,805	37,796	40,699	1,415	84,715
NET LIQUIDITY GAP ON RECOGNISED FINANCIAL ASSETS AND LIABILITIES	**20,362**	**(6,192)**	**20,188**	**(796)**	**33,562**

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

FINANCIAL ASSETS	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
CASH AND CASH EQUIVALENTS	2,673	-	-	-	2,673
LOANS TO CUSTOMERS	9,138	28,937	58,300	478	96,853
OTHER FINANCIAL ASSETS	30	63	-	-	93
DERIVATIVE FINANCIAL ASSETS					
-INFLOW	33,599	-	-	-	33,599
-OUTFLOW	(33,126)	-	-	-	(33,126)
	12,314	**29,000**	**58,300**	**478**	**100,092**
NON-DERIVATIVE FINANCIAL LIABILITIES					
OTHER BORROWED FUNDS	6,758	21,383	25,534	-	53,675
SUBORDINATED BORROWINGS	272	411	7,360	-	8,043
LEASE LIABILITIES	291	911	3,632	1,395	6,229
OTHER FINANCIAL LIABILITIES	204	80	-	-	284
	7,525	22,785	36,526	1,395	68,231
NET LIQUIDITY GAP ON RECOGNISED FINANCIAL ASSETS AND LIABILITIES	**4,789**	**6,215**	**21,774**	**(917)**	**31,861**

MARKET RISK

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

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

For the year ended 31 December 2021 (In thousands of Georgian Lari)

- **CURRENCY RISK**

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

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

FINANCIAL ASSETS	GEL	USD	OTHER CURRENCIES
CASH AND CASH EQUIVALENTS	1,886	11,094	899
LOANS TO CUSTOMERS	70,165	2,652	-
OTHER FINANCIAL ASSETS	112	295	15
	72,163	**14,041**	**914**
FINANCIAL LIABILITIES			
OTHER BORROWED FUNDS	34,040	30,542	83
SUBORDINATED BORROWINGS	-	5,481	-
LEASE LIABILITIES	221	5,720	-
OTHER FINANCIAL LIABILITIES	257	386	6
	34,518	42,129	89
OPEN BALANCE SHEET POSITION	**37,645**	**(28,088)**	**825**
THE EFFECT OF DERIVATIVES HELD FOR RISK MANAGEMENT	**(21,301)**	**21,322**	**-**
NET OPEN BALANCE SHEET POSITION	**16,344**	**(6,766)**	**825**

The Organisation's exposure to foreign currency exchange rate risk as at 31 December 2020 is presented in the tables below:

FINANCIAL ASSETS	GEL	USD	OTHER CURRENCIES
CASH AND CASH EQUIVALENTS	866	1,029	778
LOANS TO CUSTOMERS	62,334	4,524	-
OTHER FINANCIAL ASSETS	30	63	
	63,230	**5,616**	**778**
FINANCIAL LIABILITIES			
OTHER BORROWED FUNDS	25,720	23,321	86
SUBORDINATED BORROWINGS	-	5,801	-
LEASE LIABILITIES	305	4,642	
OTHER FINANCIAL LIABILITIES	228	56	-
	26,253	33,820	86
OPEN BALANCE SHEET POSITION	**36,977**	**(28,204)**	**692**
THE EFFECT OF DERIVATIVES HELD FOR RISK MANAGEMENT	**(33,126)**	**33,599**	**-**
NET OPEN BALANCE SHEET POSITION	**3,851**	**5,395**	**692**

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

For the year ended 31 December 2021 (In thousands of Georgian Lari)

The following table details the Organisation's sensitivity to a 20% increase and decrease in the foreign currency exchange rates against GEL and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the year for a 20% change in foreign currency rates. Impact on the statement of comprehensive income and equity based on financial instrument values as at 31 December 2021 and 2020 can be presented as follows:

	31 DECEMBER 2021		31 DECEMBER 2020	
	(GEL / USD)	(GEL / OTHER CURRECIES)	(GEL / USD)	(GEL / OTHER CURRECIES)
20% INCREASE	(1,353)	165	1,079	138
20% DECREASE	1,353	(165)	(1,079)	(138)

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

INTEREST RATE RISK

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

The table presents the aggregated amounts of the Organisation’s interest-bearing financial assets and interestbearing financial liabilities at carrying amounts as at 31 December 2021 and 2020:

	31 DECEMBER 2021	31 DECEMBER 2020
TOTAL INTEREST-BEARING FINANCIAL ASSETS	83,801	68,133
TOTAL INTEREST-BEARING FINANCIAL LIABILITIES	(76,087)	(59,875)
	7,715	**8,258**

MANAGEMENT OF CAPITAL

The Organisation's objectives when maintaining capital are:
- To safeguard the Organisation's ability to continue as a going concern, so that it can continue to operate sufficiently; and
- To comply with the capital requirements set by NBG and borrower;
- To provide an adequate return to shareholder.

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

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

The Organisation is also subject to minimum capital requirements established by covenants stated in loan agreements. See detailed information in Note 16.

5. CASH AND CASH EQUIVALENTS

For the year ended 31 December 2021 (In thousands of Georgian Lari)

	31 DECEMBER 2021	31 DECEMBER 2020
CASH ON HAND	2,894	1,398
CASH AT BANK	10,985	1,275
	13,879	**2,673**

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

6. LOANS TO CUSTOMERS

For the year ended 31 December 2021 (In thousands of Georgian Lari)

	31 DECEMBER 2021	31 DECEMBER 2020
SERVICES	32,861	27,855
CONSUMPTION*	16,290	13,692
TRADE	13,300	16,148
FARMING/AGRO-ACTIVITIES	8,282	5,762
PRODUCTION/CONSTRUCTION	2,541	3,006
HOUSING*	1,783	2,121
	75,057	**68,584**
EXPECTED CREDIT LOSSES	(2,240)	(1,726)
TOTAL LOANS TO CUSTOMERS	**72,817**	**66,858**

* Consumption loans are intended to cover personal purchases and other consumer liabilities. Housing loans are loans issued for the purpose of purchase, repair and to arrange real estate.

6. LOANS TO CUSTOMERS (CONTINUED)

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

LOANS TO CUSTOMERS	STAGE 1	STAGE 2	STAGE 3	TOTAL
SERVICES				
NOT OVERDUE	30,331	549	-	30,880
OVERDUE LESS THAN 30 DAYS	321	12	-	333
31 TO 90 DAYS OVERDUE	-	182	-	182
91 TO 180 DAYS OVERDUE	-	-	538	538
MORE THAN 180 DAYS OVERDUE	-	-	928	928
TOTAL SERVICES	**30,652**	**743**	**1,466**	**32,861**
EXPECTED CREDIT LOSSES	(335)	(51)	(588)	(974)
CARRYING AMOUNT	**30,317**	**692**	**878**	**31,887**
CONSUMPTION				
NOT OVERDUE	14,970	488	-	15,458
OVERDUE LESS THAN 30 DAYS	227	5	-	232
31 TO 90 DAYS OVERDUE	-	103	-	103
91 TO 180 DAYS OVERDUE	-	-	148	148
MORE THAN 180 DAYS OVERDUE	-	-	349	349
TOTAL CONSUMPTION	**15,197**	**596**	**497**	**16,290**
EXPECTED CREDIT LOSSES	(229)	(31)	(259)	(519)
CARRYING AMOUNT	**14,968**	**565**	**238**	**15,771**
TRADE				
NOT OVERDUE	11,691	636	-	12,327
OVERDUE LESS THAN 30 DAYS	216	58	-	274
31 TO 90 DAYS OVERDUE	-	46	-	46
91 TO 180 DAYS OVERDUE	-	-	70	70
MORE THAN 180 DAYS OVERDUE	-	-	583	583
TOTAL TRADE	**11,907**	**740**	**653**	**13,300**
EXPECTED CREDIT LOSSES	(117)	(23)	(259)	(399)
CARRYING AMOUNT	**11,790**	**717**	**394**	**12,901**
FARMING/AGRO-ACTIVITIES				
NOT OVERDUE	7,600	25	-	7,625
OVERDUE LESS THAN 30 DAYS	178	21	-	199
31 TO 90 DAYS OVERDUE	-	213	-	213
91 TO 180 DAYS OVERDUE	-	-	104	104
MORE THAN 180 DAYS OVERDUE	-	-	141	141
TOTAL FARMING/AGRO-ACTIVITIES	**7,778**	**259**	**245**	**8,282**
EXPECTED CREDIT LOSSES	(102)	(46)	(110)	(258)
CARRYING AMOUNT	**7,676**	**213**	**135**	**8,024**
PRODUCTION/CONSTRUCTION				
NOT OVERDUE	2,410	27	-	2,437
OVERDUE LESS THAN 30 DAYS	23	-	-	23
31 TO 90 DAYS OVERDUE	-	4	-	4
91 TO 180 DAYS OVERDUE	-	-	4	4
MORE THAN 180 DAYS OVERDUE	-	-	73	73
TOTAL PRODUCTION/CONSTRUCTION	**2,433**	**31**	**77**	**2,541**
EXPECTED CREDIT LOSSES	(22)	(1)	(37)	(60)
CARRYING AMOUNT	**2,411**	**30**	**40**	**2,481**
HOUSING				
NOT OVERDUE	1,488	240	-	1,728
OVERDUE LESS THAN 30 DAYS	6	-	-	6
MORE THAN 180 DAYS OVERDUE	-	-	49	49
TOTAL HOUSING	**1,494**	**240**	**49**	**1,783**
EXPECTED CREDIT LOSSES	(10)	(4)	(16)	(30)
CARRYING AMOUNT	**1,484**	**236**	**33**	**1,753**

6. LOANS TO CUSTOMERS (CONTINUED)

The following table provides information on the credit quality of loans to customers as at 31 December 2020:

LOANS TO CUSTOMERS	STAGE 1	STAGE 2	STAGE 3	TOTAL
SERVICES				
NOT OVERDUE	25,733	561	-	**26,294**
OVERDUE LESS THAN 30 DAYS	318	-	-	**318**
31 TO 90 DAYS OVERDUE	-	600	-	**600**
91 TO 180 DAYS OVERDUE	-	-	399	**399**
MORE THAN 180 DAYS OVERDUE	-	-	244	**244**
TOTAL SERVICES	**26,051**	**1,161**	**643**	**27,855**
EXPECTED CREDIT LOSSES	(262)	(123)	(279)	**(664)**
CARRYING AMOUNT	**25,789**	**1,038**	**364**	**27,191**
TRADE				
NOT OVERDUE	14,711	595	-	**15,306**
OVERDUE LESS THAN 30 DAYS	204	2	-	**206**
31 TO 90 DAYS OVERDUE	-	307	-	**307**
91 TO 180 DAYS OVERDUE	-	-	158	**158**
MORE THAN 180 DAYS OVERDUE	-	-	171	**171**
TOTAL TRADE	**14,915**	**904**	**329**	**16,148**
EXPECTED CREDIT LOSSES	(141)	(65)	(135)	**(341)**
CARRYING AMOUNT	**14,774**	**839**	**194**	**15,807**
CONSUMPTION				
NOT OVERDUE	12,383	589	-	**12,972**
OVERDUE LESS THAN 30 DAYS	243	-	-	**243**
31 TO 90 DAYS OVERDUE	-	148	-	**148**
91 TO 180 DAYS OVERDUE	-	-	185	**185**
MORE THAN 180 DAYS OVERDUE	-	-	144	**144**
TOTAL CONSUMPTION	**12,626**	**737**	**329**	**13,692**
EXPECTED CREDIT LOSSES	(194)	(55)	(175)	**(424)**
CARRYING AMOUNT	**12,432**	**682**	**154**	**13,268**
FARMING/AGRO-ACTIVITIES				
NOT OVERDUE	5,348	55	-	**5,403**
OVERDUE LESS THAN 30 DAYS	40	-	-	**40**
31 TO 90 DAYS OVERDUE	-	158	-	**158**
91 TO 180 DAYS OVERDUE	-	-	38	**38**
MORE THAN 180 DAYS OVERDUE	-	-	123	**123**
TOTAL FARMING/AGRO-ACTIVITIES	**5,388**	**213**	**161**	**5,762**
EXPECTED CREDIT LOSSES	(61)	(32)	(73)	**(166)**
CARRYING AMOUNT	**5,327**	**181**	**88**	**5,596**
PRODUCTION/CONSTRUCTION				
NOT OVERDUE	2,769	36	-	**2,805**
31 TO 90 DAYS OVERDUE	-	44	-	**44**
91 TO 180 DAYS OVERDUE	-	-	85	**85**
MORE THAN 180 DAYS OVERDUE	-	-	72	**72**
TOTAL PRODUCTION/CONSTRUCTION	**2,769**	**80**	**157**	**3,006**
EXPECTED CREDIT LOSSES	(23)	(9)	(60)	**(92)**
CARRYING AMOUNT	**2,746**	**71**	**97**	**2,914**
HOUSING				
NOT OVERDUE	1,781	260	-	**2,041**
OVERDUE LESS THAN 30 DAYS	23	-	-	**23**
31 TO 90 DAYS OVERDUE	-	8	-	**8**
91 TO 180 DAYS OVERDUE	-	-	48	**48**
MORE THAN 180 DAYS OVERDUE	-	-	1	**1**
TOTAL HOUSING	**1,804**	**268**	**49**	**2,121**
EXPECTED CREDIT LOSSES	(16)	(5)	(18)	**(39)**
CARRYING AMOUNT	**1,788**	**263**	**31**	**2,082**

6. LOANS TO CUSTOMERS (CONTINUED)

For the year ended 31 December 2021 (In thousands of Georgian Lari)

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security, and the Organisation generally requests borrowers to provide it.

Loans to customers are generally collateralized by real estate and vehicles (few amounts are collateralized by precious metals).

Weighted average loan-to-value ratio for loans collateralized with real estate at the end of 2021 was 37% and collateralized by vehicles was 52%.

Loans collateralized by precious metals are collateralized by underlying precious metals. Weighted average loan-tovalue ratio for loans collateralized by precious metals at the end of 2021 was 88%. From 2016 year the Organisation does not grant loans collateralized by precious metals.

Following table provides information on the collateral, securing the loan portfolio, net of impairment:

AT 31 DECEMBER 2021	REAL ESTATE	VEHICLES	PRECIOUS METALS	NO COLLATERAL	TOTAL
SERVICES	21,309	10,515	19	44	**31,887**
CONSUMPTION	4,795	10,924	48	4	**15,771**
TRADE	10,447	2,442	-	12	**12,901**
FARMING/AGRO-ACTIVITIES	5,438	2,546	-	40	**8,024**
PRODUCTION/CONSTRUCTION	2,141	337	-	3	**2,481**
HOUSING	1,651	102	-	-	**1,753**
	45,781	**26,866**	**67**	**103**	**72,817**

AT 31 DECEMBER 2020	REAL ESTATE	VEHICLES	PRECIOUS METALS	NO COLLATERAL	TOTAL
SERVICES	18,003	9,150	36	2	**27,191**
TRADE	13,036	2,771	-	-	**15,807**
CONSUMPTION	6,962	6,207	95	4	**13,268**
FARMING/AGRO-ACTIVITIES	3,716	1,880	-	-	**5,596**
PRODUCTION/CONSTRUCTION	2,454	460	-	-	**2,914**
HOUSING	1,992	90	-	-	**2,082**
	46,163	**20,558**	**131**	**6**	**66,858**

IMPACT OF COVID-19

For the year ended 31 December 2021 (In thousands of Georgian Lari)

Restrictions related to the COVID-19 have different impact on different business sectors. Due to the lockdown and sharp decline in performance of vulnerable sectors, dramatic increase of financial risks, especially credit risks, is almost inevitable.

In response to COVID-19 outbreak the Organisation joined Commercial Banks initiative to grant one to three-month grace period to its borrowers in April, May and June 2020.Such event was not automatically considered as SICR event (i.e. trigger to transfer the exposure from Stage 1 to Stage 2) and the exposure was only transferred to Stage 2 where there was an observable evidence of financial difficulties of the borrower indicating that the level of risk has increased significantly since loan origination.

During 2021 the Organisation was continuing operations in regular and usual manner and there were no interruptions caused by pandemic. Management closely monitors the development of the situation on the world and Georgian markets in order to minimize negative consequences and respond to mitigate the impact of such events and circumstances as they occur.

6. LOANS TO CUSTOMERS (CONTINUED)

For the year ended 31 December 2021 (In thousands of Georgian Lari)

The following table includes summary information for financial assets whose cash flows were modified during the 2020 period as of the Organisation's restructuring activities and their respective effect on the Organisation's financial position as at 31 December 2021:

	AMORTISED COST BEFORE MODIFICATION	NET MODIFICATION GAIN 2021	NET MODIFICATION LOSS 2020
SERVICES	13,713	179	(299)
TRADE	8,688	111	(195)
CONSUMPTION	7,548	104	(185)
HOUSING	1,664	31	(43)
FARMING/AGRO-ACTIVITIES	1,501	21	(35)
PRODUCTION/CONSTRUCTION	1,497	15	(33)
	34,611	**461**	**(790)**

The following table shows reconciliations from the opening to the closing balances of the expected credit losses ofloans to customers as at 31 December 2021:

EXPECTED CREDIT LOSSES	STAGE 1	STAGE 2	STAGE 3	TOTAL
AT THE BEGINNING OF THE YEAR	**697**	**289**	**740**	**1,726**
TRANSFER TO STAGE 1	173	(173)	-	**-**
TRANSFER TO STAGE 2	(21)	21	-	**-**
TRANSFER TO STAGE 3	(24)	(73)	97	**-**
NET REMEASUREMENT OF LOSS ALLOWANCE	90	34	197	**321**
NEW FINANCIAL ASSETS ORIGINATED	949	-	-	**949**
TRANSFER TO STAGE 2	(83)	83	-	**-**
TRANSFER TO STAGE 3	(239)	-	239	**-**
REPAID LOANS	(727)	(25)	(4)	**(756)**
AT THE END OF THE YEAR	**815**	**156**	**1,269**	**2,240**

The following table shows reconciliations from the opening to the closing balances of the expected credit losses of loans to customers as at 31 December 2020:

EXPECTED CREDIT LOSSES	STAGE 1	STAGE 2	STAGE 3	TOTAL
AT THE BEGINNING OF THE YEAR	479	136	169	**784**
TRANSFER TO STAGE 1	10	(10)	-	**-**
TRANSFER TO STAGE 2	(21)	21	-	**-**
TRANSFER TO STAGE 3	(16)	(49)	65	**-**
NET REMEASUREMENT OF EXPECTED CREDIT LOSSES	61	171	449	**681**
NEW FINANCIAL ASSETS ORIGINATED	573	-	-	**573**
TRANSFER TO STAGE 2	(82)	82	-	**-**
TRANSFER TO STAGE 3	(88)	-	88	**-**
REPAID LOANS	(219)	(62)	(31)	**(312)**
AT THE END OF THE YEAR	697	289	740	**1,726**

6. LOANS TO CUSTOMERS (CONTINUED)

For the year ended 31 December 2021 (In thousands of Georgian Lari)

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

	STAGE 1	STAGE 2	STAGE 3	TOTAL
LOANS TO CUSTOMERS AT AMORTISED COST				
AT THE BEGINNING OF THE YEAR	**63,553**	**3,363**	**1,668**	**68,584**
TRANSFER TO STAGE 1	883	(883)	-	**-**
TRANSFER TO STAGE 2	(2,043)	2,043	-	**-**
TRANSFER TO STAGE 3	(1,146)	(413)	1,559	**-**
NEW FINANCIAL ASSETS ORIGINATED	91,724	-	-	**91,724**
TRANSFER TO STAGE 2	(351)	351	-	**-**
TRANSFER TO STAGE 3	(439)	-	439	**-**
NET CHANGES IN INTEREST ACCRUALS	(80)	38	190	**148**
MODIFICATION OF CONTRACTUAL CASH FLOWS OF FINANCIAL ASSETS	401	(6)	66	**461**
REPAID LOANS	(83,281)	(1,909)	(309)	**(85,499)**
WRITE-OFFS	-	-	(184)	**(184)**
FX AND OTHER MOVEMENTS	240	25	(442)	**(177)**
AT THE END OF THE YEAR	**69,461**	**2,609**	**2,987**	**75,057**

Stage 2 loans include loans restructured according to the Organisation’s standard procedure with gross amount of GEL2,116 thousand and with ECL of GEL34 thousand.

Stage 3 loans include loans restructured according to the Organisation’s standard procedure with gross amount of GEL38 thousand and with ECL of GEL2 thousand.

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

	STAGE 1	STAGE 2	STAGE 3	TOTAL
LOANS TO CUSTOMERS AT AMORTISED COST				
AT THE BEGINNING OF THE YEAR	**56,738**	**1,919**	**346**	**59,003**
TRANSFER TO STAGE 1	46	(46)	-	**-**
TRANSFER TO STAGE 2	(1,870)	1,870	-	**-**
TRANSFER TO STAGE 3	(1,132)	(268)	1,400	**-**
NEW FINANCIAL ASSETS ORIGINATED	60,220	-	-	**60,220**
TRANSFER TO STAGE 2	(591)	591	-	**-**
TRANSFER TO STAGE 3	(194)	-	194	**-**
NET CHANGES IN INTEREST ACCRUALS	17	70	95	**182**
MODIFICATION OF CONTRACTUAL CASH FLOWS OF FINANCIAL ASSETS	(711)	(61)	(18)	**(790)**
REPAID LOANS	(49,577)	(798)	(255)	**(50,630)**
WRITE-OFFS	-	-	(94)	**(94)**
FX AND OTHER MOVEMENTS	607	86	-	**693**
AT THE END OF THE YEAR	**63,553**	**3,363**	**1,668**	**68,584**

Stage 2 loans include loans restructured according to the Organisation's standard procedure with gross amount of GEL1,283 thousand and with ECL of GEL20 thousand.

Stage 3 loans include loans restructured according to the Organisations' standard procedure with gross amount of GEL5 thousand and with ECL of GEL3 thousand.

6. LOANS TO CUSTOMERS (CONTINUED)

For the year ended 31 December 2021 (In thousands of Georgian Lari)

Movements in the loan impairment allowance are as follows:

	2021	2020
NET REMEASUREMENT OF EXPECTED CREDIT LOSSES	(435)	369
NEW FINANCIAL ASSETS ORIGINATED	949	573
TOTAL RECOGNISED EXPECTED CREDIT LOSSES FOR THE PERIOD	**514**	**942**
WRITE-OFFS	184	94
RECOVERIES OF AMOUNTS PREVIOUSLY WRITTEN-OFF LOANS	(240)	(288)
TOTAL IMPAIRMENT LOSSES ON DEBT FINANCIAL ASSETS	**458**	**748**

7. OTHER ASSETS

For the year ended 31 December 2021 (In thousands of Georgian Lari)

	31 DECEMBER 2021	31 DECEMBER 2020
REPOSSESSED PROPERTY*	869	1,173
CASH COLLATERAL PLEDGED UNDER THE CREDIT LINE AGREEMENT	287	66
PREPAYMENTS	114	95
PAYMENT SERVICE PROVIDERS	106	20
FINANCIAL ASSETS AT FAIR VALUE THOUGH PROFIT OR LOSS	59	170
OTHER	110	100
	1,545	**1,624**

Movements in the repossessed property for the year ended 31 December 2021 and 2020 are as follows:

	31 დეკემბერი 2021	31 დეკემბერი 2020
AT THE BEGINNING OF THE YEAR	**1,173**	**737**
ADDITIONS	344	520
DISPOSALS	(648)	(84)
AT THE END OF THE YEAR	**869**	**1,173**

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

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

FOREIGN CURRENCY FORWARD CONTRACTS

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

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

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

7. OTHER ASSETS

For the year ended 31 December 2021 (In thousands of Georgian Lari)

	NOTIONAL AMOUNT	
	31 DECEMBER 2021	31 DECEMBER 2020
SELL GEL TO BUY USD		
LESS THAN 3 MONTHS	21,128	33,126
BETWEEN 3 AND 12 MONTHS	100	-
	21,228	**33,126**

8. DEFERRED TAX ASSET

For the year ended 31 December 2021 (In thousands of Georgian Lari)

	31 DECEMBER 2019	RECOGNISED IN PROFIT OR LOSS	31 DECEMBER 2020	RECOGNISED IN PROFIT OR LOSS	31 DECEMBER 2021
LOANS TO CUSTOMERS	**267**	10	**277**	36	**313**
RIGHT-OF-USE ASSETS	**(672)**	64	**(608)**	(191)	**(799)**
PROPERTY AND EQUIPMENT	**(202)**	16	**(186)**	(31)	**(217)**
INTANGIBLE ASSETS	**9**	16	**25**	(5)	**20**
SUBORDINATED BORROWINGS AND OTHER BORROWED FUNDS	**44**	38	**82**	28	**110**
LEASE LIABILITIES	**705**	37	**742**	149	**891**
OTHER LIABILITIES	**43**	(19)	**24**	52	**76**
	194	**162**	**356**	**38**	**394**

Income tax expense for the years ended 31 December 2021 and 2020 comprises the following:

	2021	2020
CURRENT INCOME TAX	(388)	(314)
EFFECT OF TEMPORARY DIFFERENCES	38	162
	(350)	**(152)**

Reconciliation of the Income tax expense based on actual statutory rate is as follows:

	2021	2020
PROFIT BEFORE INCOME TAX	**2,935**	**1,635**
APPLICABLE TAX RATE	15%	15%
THEORETICAL INCOME TAX BENEFIT	**(440)**	**(245)**
EFFECT OF PERMANENT DIFFERENCES	90	93
	(350)	**(152)**

9. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

For the year ended 31 December 2021 (In thousands of Georgian Lari)

The Organisation's lease agreements, for which right of use assets are recognised, include leases to the head office and branches. The lease of the head office is obtained from different third parties. The renewal option is implied through customary business practices. Remaining lease terms are defined as five to ten years. Lease payments for these spaces are fixed over the lease term and are denominated in USD and GEL. Incremental borrowing rate used by Organisation in accounting for leases are 6% and 12.5% annually for each lease, according to their currencies.

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

	2021	2020
AT THE BEGINNING OF THE YEAR	**4,483**	**4,483**
NEW LEASE CONTRACTS	2,163	396
RENT CONCESSIONS	44	
AMORTISATION	(929)	(829)
AT THE END OF THE YEAR	**5,328**	**4,050**

Lease liabilities can be presented as follows:

	2021	2020
AT THE BEGINNING OF THE YEAR	**4,947**	**4,700**
NEW LEASE CONTRACTS	2,163	396
INTEREST EXPENSE	402	401
RENT CONCESSIONS*	38	(100)
LEASE PAYMENTS	(1,232)	(1,057)
FOREIGN EXCHANGE MOVEMENTS	(377)	607
AT THE END OF THE YEAR	**5,941**	**4,947**

*The Organisation has elected to apply the practical expedient introduced by the amendments to IFRS 16 to all rent concessions that satisfy the criteria. Substantially all of the rent concessions entered into during year satisfy the criteria to apply the practical expedient. The application of the practical expedient has resulted in the increase of total lease liabilities of GEL38 thousand. The effect of this reduction has been recorded in profit or loss in the period in which the event or condition that triggers those payments occurred.

The Organisation has no borrowings received in the current or comparable period with similar currency, maturity and terms. IBR was determined based on observable market data for a similar sector.

10. PROPERTY AND EQUIPMENT

For the year ended 31 December 2021 (In thousands of Georgian Lari)

HISTORICAL COST	LAND AND BUILDINGS	FURNITURE AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	TOTAL
AS AT 31 DECEMBER 2019	**1,184**	**1,335**	**473**	**473**
ADDITIONS	**-**	**282**	**216**	**216**
WRITE OFF	-	(9)	(38)	**(38)**
AS AT 31 DECEMBER 2020	**1,184**	**1,608**	**651**	**651**
ADDITIONS	26	473	382	**382**
AS AT 31 DECEMBER 2021	**1,210**	**2,081**	**1,033**	**1,033**
ACCUMULATED DEPRECIATION				
AS AT 31 DECEMBER 2019	**(37)**	**(526)**	**(167)**	**(730)**
DEPRECIATION FOR THE YEAR	(21)	(240)	(90)	(351)
WRITE OFF	-	9	33	**42**
AS AT 31 DECEMBER 2020	**(58)**	**(757)**	**(224)**	**(1,039)**
DEPRECIATION FOR THE YEAR	(21)	(281)	(103)	**(405)**
AS AT 31 DECEMBER 2021	**(79)**	**(1,038)**	**(327)**	**(1,444)**
CARRYING AMOUNT				
AS AT 31 DECEMBER 2020	**1,126**	**851**	**427**	**2,404**
AS AT 31 DECEMBER 2021	**1,131**	**1,043**	**706**	**2,880**

11. SUBORDINATED BORROWINGS AND OTHER BORROWED FUNDS

For the year ended 31 December 2021 (In thousands of Georgian Lari)

	31 DECEMBER 2021	31 DECEMBER 2020
PRINCIPAL	69,247	54,261
ACCRUED INTEREST	899	667
	70,146	**54,928**

	CURRENCY	NOMINAL INTEREST RATE	YEAR OF MATURITY	31 DECEMBER 2021
SECURED LOANS				
FROM LOCAL FINANCIAL INSTITUTIONS	GEL	12%-16%	2022-2023	30,448
UNSECURED LOANS				
FROM INTERNATIONAL FINANCIAL NSTITUTIONS	USD	6%-9%	2022-2023	24,939
FROM INTERNATIONAL FINANCIAL INSTITUTIONS	GEL	14%	2023	3,480
SUBORDINATED LOANS FROM SHAREHOLDERS	USD	9%-10%	2024-2025	5,481
FROM RELATED PARTIES	USD	3%-11%	2022-2024	1,956
FROM INDIVIDUALS	USD	4%-8%	2022-2023	3,647
FROM INDIVIDUALS	GEL	14%	2022	112
FROM INDIVIDUALS	EUR	2%-4%	2022	83
				70,146

11. SUBORDINATED BORROWINGS AND OTHER BORROWED FUNDS (CONTINUED)

For the year ended 31 December 2021 (In thousands of Georgian Lari)

	CURRENCY	NOMINAL INTEREST RATE	YEAR OF MATURITY	31 DECEMBER 2020
SECURED LOANS				
FROM LOCAL FINANCIAL INSTITUTIONS	GEL	9%-15%	2021-2023	25,494
UNSECURED LOANS				
FROM INTERNATIONAL FINANCIAL INSTITUTIONS	USD	8%-9%	2021-2022	15,854
SUBORDINATED LOANS FROM SHAREHOLDERS	USD	10%-11%	2024-2025	5,801
FROM RELATED PARTIES	USD	8%-11%	2021-2024	1,094
FROM RELATED PARTIES	GEL	14%	2021	20
FROM RELATED PARTIES	EUR	6%	2021	65
FROM INDIVIDUALS	USD	2%-8%	2021-2022	5,765
FROM INDIVIDUALS	GEL	14%	2021	206
FROM INDIVIDUALS	EUR	6%	2021	21
FROM OTHER LEGAL ENTITIES	USD	7%-8%	2021-2022	608
				54,928

Borrowings received from local financial institutions for 2021 and 2020 were secured with the Organisation's real estate with carrying amount of GEL750 thousand and GEL740 thousand, loan portfolio with amount of GEL22,780 thousand and GEL37,000 thousand, cash collaterals GEL287 thousand and GEL66 thousand, respectively.

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

	2021		2020	
	SUBORDINATED BORROWINGS	OTHER BORROWED FUNDS	SUBORDINATED BORROWINGS	OTHER BORROWED FUNDS
AT THE BEGINNING OF THE YEAR	5,801	49,127	5,080	43,004
REPAYMENT	-	(112,141)	-	(91,803)
PROCEEDS	-	128,588	-	94,288
INTEREST PAID	(536)	(6,089)	(600)	(5,131)
NET CASH FLOWS:				
INTEREST EXPENSE	531	6,337	551	5,338
THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES	(315)	(1,157)	770	3,431
AT THE END OF THE YEAR	**5,481**	**64,665**	**5,801**	**49,127**

12. OTHER LIABILITIES

For the year ended 31 December 2021 (In thousands of Georgian Lari)

	31 DECEMBER 2021	31 DECEMBER 2020
PAYABLES FROM RECEIVED SERVICES	193	140
SALARY PAYABLES	423	86
FINANCIAL LIABILITIES AT FAIR VALUE THOUGH PROFIT OR LOSS	-	448
OTHER	174	91
	790	**765**

13. SHARE CAPITAL AND RESERVES

For the year ended 31 December 2021 (In thousands of Georgian Lari)

As at 31 December 2021 and 2020 the following shareholders owned shares of the Organisation and comprise the Shareholder Group:

	31 DECEMBER 2021			31 DECEMBER 2020		
SHAREHOLDER	PERCENTAGE OF TOTAL ORDINARY SHARES	NUMBER OF ORDINARY SHARES	NUMBER OF PREFERENCE SHARES	PERCENTAGE OF TOTAL ORDINARY SHARES	NUMBER OF ORDINARY SHARES	NUMBER OF PREFERENCE SHARES
GIA PETRIASHVILI	31.82%	716,000	200	32.18%	716,000	200
OTAR RUKHADZE	14.44%	325,000	800	14.61%	325,000	800
TENGIZ MAZIASHVILI	9.31%	209,500	250	9.42%	209,500	250
TARAS NIZHARADZE	8.27%	186,000	740	8.36%	186,000	740
MURMAN AMBROLADZE	8.00%	180,000	100	8.09%	180,000	100
GODERDZI MELADZE	6.67%	150,000	300	6.74%	150,000	300
GIORGI GOTOSHIA	6.67%	150,000	100	6.74%	150,000	100
GIORGI VACHNADZE	5.49%	123,500	110	5.55%	123,500	110
JB LLC	2.67%	60,000	200	2.70%	60,000	200
ETER CHACHIBAIA	2.00%	45,000	-	1.80%	40,000	-
GIORGI GHVALADZE	1.96%	44,000	-	1.71%	38,000	-
TATIA JAJANASHVILI	1.49%	33,500	-	1.21%	27,000	-
NINO DEVDARIANI	1.22%	27,500	-	0.90%	20,000	-
	100%	**2,250,000**	**2,800**	**100%**	**2,225,000**	**2,800**

ISSUED CAPITAL

The authorised, issued and outstanding share capital comprises 2,250,000 ordinary shares (2020: 2,225,000). All shares have a nominal value of GEL 1. During 2021, 25,000 ordinary shares were issued (2020: 25,000).

Difference between nominal value and market price is recognized in share premium. As at 31 December 2021 share premium comprises GEL 1,117 thousand (As at 31 December 2020: GEL 996 thousand).

The holders of ordinary 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 Organisation.

PREFERENCE SHARES

During 2018, the Organisation issued 2,800 non-redeemable preference shares with nominal value USD 1,000 (2020 and 2019: no additional issue). The Dividend rate on the preference shares is 12.5% per annum, payable semiannually, subject to the Annual General Meeting (AGM) approval in each given year. The ability to pay dividends is subject to the Organisation's financial condition and results of operations and other factors considered by Annual General Meeting.

According the Charter of the Organisation, if based on the decision of AGM dividends on preference shares will not be paid two times in a row or dividend rate will be decreased, the holder of the preference shares has right to convert its preference shares into ordinary shares.

DIVIDENDS

Dividends payable are restricted to the maximum retained earnings of the Organisation, which are determined according to Georgian legislation. In 2021 year the Organisation did not declare preference dividends. During 2020 reporting year the Organisation declared and issued preference dividends of GEL741 thousand.

14. . NET INTEREST INCOME

For the year ended 31 December 2021 (In thousands of Georgian Lari)

INTEREST INCOME IS ARISING FROM:	2021	2020
LOANS TO CUSTOMERS	19,578	16,608
MODIFICATION GAIN/(LOSS) OF CONTRACTUAL CASH FLOWS OF FINANCIAL ASSETS	461	(790)
PLACEMENTS WITH BANKS	84	40
	20,123	**15,858**

INTEREST EXPENSE IS ARISING FROM:	2021	2020
BORROWINGS FROM FINANCIAL INSTITUTIONS	(3,967)	(3,728)
BORROWINGS FROM INTERNATIONAL FINANCIAL INSTITUTIONS	(1,521)	(960)
BORROWINGS FROM INDIVIDUALS	(885)	(1,011)
LEASES	(402)	(401)
OTHER BORROWINGS	(495)	(190)
	(7,270)	**(6,290)**

15. OTHER OPERATING EXPENSES

For the year ended 31 December 2021 (In thousands of Georgian Lari)

	2021	2020
ADVERTISING AND MARKETING	(609)	(362)
CONSULTING *	(167)	(192)
OFFICE SUPPLIES	(154)	(158)
APPLICATION INSPECTION	(139)	(104)
UTILITIES	(165)	(94)
COMMUNICATION	(118)	(92)
RENT	(101)	(50)
TRANSPORTATION	(67)	(31)
SECURITY	(61)	(57)
BANK CHARGES	(57)	(33)
BUSINESS TRIPS	(35)	(30)
TAX EXPENSE OTHER THAN INCOME TAX	(29)	(43)
OTHER	(258)	(252)
	(1,960)	**(1,498)**

*For 2021 and 2020, professional fees paid to the audit firm for the provision of audit and other professional services comprised GEL 53 thousand and GEL 51 thousand.

16. COMMITMENTS AND CONTINGENCIES

LITIGATION

In the ordinary course of business, companies are usually subject to legal actions and complaints.
Following the Organisation's customers' failure to meet loan repayment obligations the Organisation is involved in legal disputes against such customers. The highest possible outcome from such legal disputes is the amount of loans receivable from such customers (including accrued interest and other charges).
Management is unaware of any significant actual, pending or threatened claims against the Organisation.

COMPLIANCE WITH COVENANTS

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

The Organisation has complied with all the financial covenants stipulated by lending agreements as of 31 December 2021 and 31 December 2020.

TAXATION CONTINGENCIES

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.
These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

FINANCIAL GUARANTEES

As at 31 December 2021 and 2020 the Organisation has issued financial guarantee of GEL 2,200 thousand to a Georgian Commercial Bank to secure loan of a related party with premium rate of 2%. The period of the guarantee is 10 years. The loan is secured by the property, for which the related party obtained the loan. The property (residential–commercial building in Tbilisi) is pledged under the same loan as a primary security. Based on management's assessment, there is a remote chance of default. As at 31 December 2021 and 2020 the Organisation allocated financial guarantee in Stage 1 for the purposes of identifying expected credit loss under IFRS 9. Management estimates that ECL is immaterial at reporting date.

MANAGEMENT REPORT

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

For the year ended 31 December 2021 (In thousands of Georgian Lari)

REGULATIONS OF NATIONAL BANK OF GEORGIA

The Organisation is in compliance with minimum statutory capital requirements – the minimum cash contribution in the equity should not be less than 1,000 thousand (2018: GEL 500 thousand).
Starting from 1 September 2018, the Organisation also has to comply with the financial covenants established by the National Bank of Georgia (NBG), such as: capital adequacy, liquidity, property investment, investment, related party exposure and pledged assets ratios. The compliance with these ratios is monitored by the NBG on a monthly basis.

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%

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

	31 DECEMBER 2021	31 DECEMBER 2020
SHARE CAPITAL	2,250	2,225
SHARE PREMIUM	1,117	996
PREFERENCE SHARES	7,347	7,347
RETAINED EARNINGS	9,579	6,994
ELIGIBLE SUBORDINATED DEBT	5,481	5,801
REGULATORY CAPITAL BEFORE REDUCTIONS	**25,774**	**23,363**
LESS INTANGIBLE ASSETS	(327)	(237)
REGULATORY CAPITAL	**25,447**	**23,126**

	31 DECEMBER 2021	31 DECEMBER 2020
TOTAL ASSETS BEFORE REDUCTION	97,170	78,202
LESS INTANGIBLE ASSETS	(327)	(237)
TOTAL ASSETS AFTER REDUCTION	**96,843**	**77,965**

	31 DECEMBER 2021	31 DECEMBER 2020
CAPITAL ADEQUACY RATIO	**26%**	**30%**

17. TRANSACTIONS WITH RELATED PARTIES

For the year ended 31 December 2021 (In thousands of Georgian Lari)

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", could be one or more of the following:
a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Organisation (this includes parents, subsidiaries and fellow subsidiaries);
have an interest in the Organisation that gives then significant influence over the Organisation; and that have joint control over the Organisation;
b) Members of key management personnel of the Organisation or its parent;
c) Close members of the family of any individuals referred to in (a) or (b);
d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (b);

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

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

FINANCIAL STATEMENT CAPTION	SHAREHOLDER	OTHER RELATED PARTIES	KEY MANAGEMENT PERSONNEL
SUBORDINATED BORROWINGS	5,481	-	-
OTHER BORROWED FUNDS	1,308	648	-
OTHER LIABILITIES	-	-	326
SHORT-TERM EMPLOYEE BENEFITS	-	-	(1,246)
INTEREST EXPENSE	(630)	(33)	-

Related party balances and transactions as and for the year ended 31 December 2020:

FINANCIAL STATEMENT CAPTION	SHAREHOLDER	OTHER RELATED PARTIES	KEY MANAGEMENT PERSONNEL
SUBORDINATED BORROWINGS	5,801	-	-
OTHER BORROWED FUNDS	-	1,179	-
SHORT-TERM EMPLOYEE BENEFITS	-	-	(739)
INTEREST EXPENSE	(551)	(142)	-

CHANGES IN GEORGIA LEGISLATION

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

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

DIVIDENDS

On 31 January 2022 according to the decision of supervisory board the Organisation declared and paid preference dividends of GEL 530 thousand.

RUSSIA – UKRAINE WAR

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

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

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

FINANCIAL INSTRUMENTS

INITIAL RECOGNITION

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 Organisation accounts for such difference as follows:

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

FINANCIAL ASSETS

CLASSIFICATION AND SUBSEQUENT MEASUREMENT

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

FINANCIAL ASSETS AT AMORTISED COST

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 on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

A debt instrument is measured at FVOCI only 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.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

The Group's all financial assets are measured at amortised cost, except derivative financial assets.

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUSINESS MODEL ASSESSMENT

There are three business models available under IFRS 9:
• Hold to collect: It is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest form the counterparty.
• Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change or to hold the assets for liquidity purposes.
• Other: all those models that do not meet the 'hold to collect' or 'hold to collect and sell' qualifying criteria.

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

The Organisation makes an assessment of the objective of a business model in which an 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. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
• how the performance of the portfolio is evaluated and reported to the Organisation'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 in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Organisation's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

SOLELY PAYMENTS OF PRINCIPAL AND INTEREST (SPPI)

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

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

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

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

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERECOGNITION OF FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Organisation's statement of financial position) when:
• The rights to receive cash flows from the asset have expired, Or
• The Organisation has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Organisation has transferred substantially all the risks and rewards of the asset, or (b) the Organisation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

RECLASSIFICATION

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Organisation changes its business model for managing financial assets.

IMPAIRMENT OF FINANCIAL ASSETS

CHANGES TO THE IMPAIRMENT ESTIMATION

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

IFRS 9 requires the Organisation to record ECL on all of its debt financial assets at amortised cost or FVOCI. The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

Under IFRS 9, the Organisation first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

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

THREE STAGE APPROACH

IFRS 9 introduces a three-stage approach to impairment for Financial Instruments that are performing at the date of origination or purchase. This approach is summarised as follows:

STAGE 1: The Organisation recognizes a credit Expected credit losses at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition. For those financial assets with a remaining maturity of less than 12 months, a PD is used that corresponds to the remaining maturity.

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

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

19. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the year ended 31 December 2021 (In thousands of Georgian Lari)

Considering overdue days, the distribution of loans between three stages can be presented as follows:

COLLATERAL	STAGE 1	STAGE 2	STAGE 3
REAL ESTATE	0-30	31-90	>90
MOVABLE PROPERTY	0-30	31-90	>90
THIRD PARTY PERSONAL GUARANTEES	0-30	31-90	>90
UNSECURED	0-30	31-90	>90

The Organisation automatically classified issued new loans into Stage 1. The loan will be transferred on the stage 2 if any of below-mentioned significant increase in credit risks trigger events occur:
a. Loan being past due for more than 30 days;
b. Restructuring of exposures;
c. Loss of the job by the borrower;
d. Borrower is unfit for work;
e. Fraud in the borrower's business (for the business loans);
f. Sale of crucial part of the business or property which is necessary for the entity's profit-making day to day activities (for business borrowers);
g. Deterioration of the macroeconomic outlook relevant to a particular borrower or a group of borrowers;
h. Deterioration of the regulatory, political, and technological outlook that relevant to a particular borrower or to a group of borrowers;
i. Adverse changes in the sector or industry conditions in which the borrower operates.
The loan will be transferred from Stage 2 to Stage 1 if:
a. The borrower pays the loan according to the loan schedule for 6 months after the Stage 2 trigger event occurrence;
b. Improvement of the circumstances due to which loan was transferred on Stage 2;
c. Restructured loans are never moved back to Stage 1;
Defaulted loans are transferred on the Stage 3 at the moment of the default. Loans which are on the Stage 3 are not transferred on the other stage.

DEFINITION OF DEFAULT

The Organisation considers loan to be in default if any of the following criteria are met:
- Loans being past due for more than 90 days; Death of the borrower;
- A default, initiation of bankruptcy proceedings (for business borrowers); or
- Fraud from Borrower side toward communication with MFO such as: providing misleading information on financial results; Collaboration of MBC staff member with the borrower for the purpose of manipulation of desired results;
- Force majeure.

The definition of default is in line with relevant regulations taking into account the 90 days past due cap presumption IFRS 9. The loans for which the Organisation recognizes default are credit-impaired loans.

SIGNIFICANT INCREASE IN CREDIT RISK

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

The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:
- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

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

The Organisation monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes more than 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement tocredit-impaired; and
- there is no unwarranted volatility in Expected credit losses from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

FORWARD-LOOKING INFORMATION

Under IFRS 9, the allowance for credit losses is based on reasonable and supportable forward-looking information obtainable without undue cost or effort, which takes into consideration past events, current conditions and forecasts of future economic conditions.

The Organisation incorporates forward-looking information into its measurement of ECLs.

The Organisation has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and probabilities of default. This key driver is GDP forecasts. Predicted relationships between the key indicator and default and loss rates of loan portfolios have been developed based on analysing historical data over the past 5 years.

MODIFIED FINANCIAL ASSETS

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

The Organisation renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default. Under the Organisation’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. Restructured loans are transferred to stage 2 and lifetime ECL is applied.

The revised terms usually include extending the maturity and changing the timing of interest payments.

RESTRUCTURED FINANCIAL ASSETS

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Measurement of ECLs

The key inputs into the measurement of ECLs are the term structures of the following variables:

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

These parameters are derived from internally developed statistical models and other historical data that leverage regulatory models. They are adjusted to reflect forward-looking information as described below. These variables (excluding EAD) are calculated annually. EAD is renewed whenever the loan impairment allowance is calculated.

PROBABILITY OF DEFAULT (PD)

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

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

PDs are calculated based on three-year average. This rate is calculated separately for all segments, loans are grouped into segments according to the types of loan collateral. The PD is calculated by matching the migration matrices to the loan portfolio, which shows the probability of the loan portfolio shifting between the impairment stages.

LOSS GIVEN DEFAULT (LGD)

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

EXPOSURE AT DEFAULT (EAD)

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

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- product type;
- collateral type;

The groupings are subject to regular reviews to ensure that exposures within a particular group remain appropriately homogeneous.

FINANCIAL LIABILITIES

The Organisation classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Organisation has classified all financial as liabilities within “Other financial liabilities” category.

Other financial liabilities include the following items: borrowings and other short-term monetary liabilities.

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

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

RECLASSIFICATION

Financial liabilities are not reclassified subsequent to their initial recognition.

DERECOGNITION OF FINANCIAL LIABILITIES

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

FAIR VALUE HIERARCHY

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

• Level 1: quoted 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.

The estimated fair values of all financial instruments as at 31 December 2021 and 31 December 2020 approximate their carrying amounts.

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

RECOGNITION OF INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in profit or loss using the effective interest method. Other fees and commissions for activities not related to the internal rate of return on loans, advances and other receivables are not settled at effective interest rate but spread over time at the straight-line method or recognised on a one-off basis at the moment of their receipt depending on the nature of such fees and commissions.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Other income and expenses are recognized in accordance with the accrual method, which is in line with the volume of services issued or received.

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

PRESENTATION

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost.

Interest expense presented in the statement of profit or loss and other comprehensive income includes interest on financial liabilities measured at amortised cost.

FEES AND COMMISSION

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

A contract with a customer that results in a recognised financial instrument in the Organisation's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Organisation first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

SALARIES AND OTHER EMPLOYEE BENEFITS

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

RECOGNITION OF OPERATING AND ADMINISTRATIVE EXPENSES

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

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

LEASES

THE ORGANISATION AS LESSEE

IDENTIFYING THE LEASE

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

INITIAL RECOGNITION

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:
- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Leases are recognised on the Organisation's balance sheet as follows:
- An asset representing the right to use the underlying asset over the lease term;
- A liability for the obligation to pay the lease payments.

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

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

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

SUBSEQUENT MEASUREMENT

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

When the Organisation revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the revised discount rate.

The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

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

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

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

DETERMINATION OF LEASE TERM

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

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

DETERMINATION OF INCREMENTAL BORROWING RATE (IBR)

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

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

DETERMINATION OF LEASE PAYMENTS

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

SHORT-TERM LEASES AND LEASES OF LOW-VALUE ASSETS

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

For the year ended 31 December 2021 (In thousands of Georgian Lari)

TAXATION

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

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

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

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

CASH AND CASH EQUIVALENTS

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

PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

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

	USEFUL LIFE (YEARS)
BUILDINGS	10 – 30
LEASEHOLD IMPROVEMENTS	LEASE CONTRACT TERM
FURNITURE AND EQUIPMENT	3 – 5

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. The intangible assets with definite useful lives are amortised on a straight-line basis over expected useful lives.

For the year ended 31 December 2021 (In thousands of Georgian Lari)

SHARE CAPITAL AND DIVIDENDS

Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared. Dividends in relation to preference shares are reflected as an appropriation of retained earnings in the period when they are approved by Annual General Meeting in each given year.

Preference share capital that is non-redeemable with discretionary dividends is classified as equity.

FOREIGN CURRENCY TRANSACTIONS

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

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

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

Table below presents the closing exchange rates by the National Bank of Georgia as at 31 December 2021 and 2020:

	USD / GEL
EXCHANGE RATE AS AT 31 DECEMBER 2021	3.0976
EXCHANGE RATE AS AT 31 DECEMBER 2020	3.2766

EVENTS AFTER REPORTING PERIOD

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