JSC MICROFINANCE ORGANIZATION SWISS CAPITAL

Consolidated Financial Statements

Together with Independent Auditor's Report

For the year ended 31 December 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of JSC MICROFINANCE ORGANIZATION SWISS CAPITAL

Opinion

We have audited the consolidated financial statements of JSC Microfinance Organization Swiss Capital and its subsidiaries (hereinafter - "the Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated 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.

Emphasis of matter

We draw attention to Note 1 to the consolidated financial statements, which describes, that in accordance with the Law of Georgia on Accounting, Reporting and Auditing, the Group is obliged to prepare the separate financial statement of the Company and submit it to the regulatory body. The Group's subsidiary Swiss Capital Group LLC did not conduct substantial operations during 2021 and 2020 and did not hold substantial assets and liabilities at the end of the reporting years. The management believes that the Group's consolidated financial statements for the year ended 31 December 2021 do not differ significantly from the separate financial statements of JSC "Microfinance Organization Swiss Capital" and, therefore, the consolidated financial statements represent the separate financial statements of the parent company. Our opinion is not qualified in respect of this matter.

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

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

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

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

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

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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 number **SARAS-A-720718)**

Engagement Partner

"BDO Audit" LLC

Tbilisi, Georgia

25 May 2022

JSC MICROFINANCE ORGANIZATION SWISS CAPITAL

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

(In '000 GEL)

	Note	2021	2020
Interest income	5	35,412	30,553
Interest expense	5	(9,283)	(7,653)
Net interest income		**26,129**	**22,900**
Loan impairment charge	10	(1,222)	(2,132)
Net interest income after impairment losses		**24,907**	**20,768**
Other income	6	3,395	2,974
Net loss on financial instruments at fair value through profit or loss		(669)	(102)
Personnel expenses		(7,986)	(7,280)
Depreciation and amortisation		(1,954)	(1,552)
Other operating expenses	7	(5,798)	(4,358)
Foreign exchange gain (loss), net		460	(184)
Profit before income tax		**12,355**	**10,266**
Income tax expense	8	(2,156)	(1,429)
Total comprehensive income from continuing operations		**10,199**	**8,837**
Net gain from discontinued operations	17	-	720
Total comprehensive income		**10,199**	**9,557**

Consolidated financial statements for the year ended 31 December 2021 were approved on behalf of Management on 25 May 2022 by:

Chief Executive Officer ____________________ Givi Kereselidze

Chief Financial Officer ____________________ Levan Panchulidze

The notes on pages 9-43 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

(In ’000 GEL)

	Note	31 December 2021	31 December 2020
Assets			
Cash and cash equivalents	9	7,637	8,888
Loans to customers	10	120,885	98,159
Financial leasing		-	77
Other assets	11	860	840
Tax assets	12	-	413
Deferred tax asset	8	1,036	1,347
Intangible assets		240	307
Right-of-use assets	13	6,997	5,717
Property and equipment	14	1,910	864
Total assets		**139,565**	**116,612**
Liabilities and equity			
Liabilities			
Borrowed funds	15	68,603	55,887
Financial instruments at fair value through profit or loss		209	159
Tax liabilities	12	653	-
Lease liabilities	13	7,568	6,423
Other liabilities		602	442
Total liabilities		**77,635**	**62,911**
Equity			
Share capital	16	4,175	4,175
Share Premium	16	2,068	2,068
Retained earnings	16	55,687	47,458
Total equity		**61,930**	**53,701**
Total liabilities and equity		**139,565**	**116,612**

The notes on pages 9-43 form an integral part of these consolidated financial statements

JSC MICROFINANCE ORGANIZATION SWISS CAPITAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

(In ’000 GEL)

	Share capital	Share premium	Retained earnings	Total equity
At 31 December 2019	**4,175**	**2,068**	**39,158**	**45,401**
Total comprehensive income	-	-	9,557	**9,557**
Dividends declared	-	-	(1,257)	**(1,257)**
At 31 December 2020	**4,175**	**2,068**	**47,458**	**53,701**
Total comprehensive income	-	-	10,199	**10,199**
Dividends declared	-	-	(1,970)	**(1,970)**
At 31 December 2021	**4,175**	**2,068**	**55,687**	**61,930**

The notes on pages 9-43 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

(In ’000 GEL)

	2021	2020
Cash flows from operating activities		
Interest received	32,655	24,074
Proceeds from loans to customers	149,255	108,522
Receipts from penalties	3,056	1,710
Loans issued to customers	(158,207)	(109,200)
Other operating expenses paid	(7,893)	(6,322)
Salaries paid	(5,867)	(5,235)
Other inflows	1,029	2,761
Other outflows	(437)	(611)
Financial instruments at fair value through profit or loss	(269)	135
Other taxes paid	(2,093)	(1,884)
Income tax paid	(797)	(1,489)
Interest paid	(9,418)	(7,277)
Net cash inflow from operating activities	**1,014**	**5,184**
Cash flows from investing activities		
Purchases of property, equipment and intangible assets	(1,521)	(644)
Purchase of loan portfolio	(10,483)	(2,868)
Net cash outflow from investing activities	**(12,004)**	**(3,512)**
Cash flows from financing activities		
Receipts from borrowed funds excluding promissory notes	30,478	37,247
Repayment of borrowed funds excluding promissory notes	(17,286)	(30,207)
Receipts from promissory notes	-	700
Repayment of promissory notes	-	(3,887)
Principal paid on lease liabilities	(1,098)	(1,362)
Dividends paid	(1,970)	(1,257)
Net cash inflow from financing activities	**10,124**	**1,234**
Net increase (decrease) in cash and cash equivalents	**(866)**	**2,906**
Cash and cash equivalents at the beginning of the year	**8,888**	**5,362**
Effect of changes in foreign exchange rate on cash and cash equivalents	(385)	620
Cash and cash equivalents at the end of the year	**7,637**	**8,888**

The notes on pages 9-43 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

JSC Microfinance Organization Swiss Capital (hereinafter – "the Company") was initially registered in March 2009 in Tbilisi, Georgia. The legal address of the Company is: Didube district, Akaki Tsereteli Avenue, N118, Pavilion I, Tbilisi, Georgia. The Company is registered by Tbilisi Tax Inspection Department, under identification number 205274273.

The Company holds the following subsidiary:

Name	Country of incorporation and principal place of business	Proportion of ownership interest at 31 December	
		2021	2020
Swiss Capital Group LLC	Georgia	100%	100%

The supreme governing body of the Company is the General Meeting of Shareholders. The supervision of the Company’s operations is conducted by the Supervisory Board, members of which are appointed by the General Meeting of the Shareholders. Daily management of the Company is carried out by the Director appointed by the Supervisory Board.

The main business activity of the Company is micro lending. The Company’s aim is to become one of the leading micro lenders in Georgia by leveraging its customer tailored product mix, experience and dedicated staff. The Company’s financial products are: individual consumer loans and loans collateralized with gold, auto, and real estate.

For the year 2021 the Company and its subsidiaries (hereinafter – "the Group") have a head office and 22 service centers around Georgia (2020: a head office and 19 service centers).

The Company has the following shareholders:

Shareholders	31 December 2021, %	31 December 2020, %
JSC Swiss Holdings	50.00%	48.60%
Eyal Elboim	30.00%	30.00%
Amir Yoeli	17.00%	17.00%
Paata Daiauri	2.00%	2.00%
Alon Bechor	1.00%	2.40%
	100.00%	**100.00%**

As at 31 December 2021 and 2020 the Group is ultimately owned by three individuals: David Bechor (ultimate beneficiary) who owns 61% shareholding in JSC Swiss Holdings (controlling party), Ronen Bechor who owns Bechor Brother A.R. holdings, which owns 39% shareholding in JSC Swiss Holdings and Eyal Elboim.

Separate financial statements

In accordance with the Law of Georgia on Accounting, Reporting and Auditing, the Group is obliged to prepare the separate financial statement of the Company and submit it to the regulatory body. The Group’ subsidiary Swiss Capital Group LLC did not conduct substantial operations during 2021 and 2020 and did not hold substantial assets and liabilities at the end of the reporting years. The management believes that the Group’s consolidated financial statements for the year ended 31 December 2021 does not differ significantly from the separate financial statements of JSC "Microfinance Organization Swiss Capital" and, therefore, the consolidated financial statements represent the separate financial statements of the parent company.

2. BASIS OF PREPARATION

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

The preparation of consolidated financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the most appropriate application in applying the accounting policies. The areas where significant judgments and estimates have been made in preparing the consolidated financial statements are disclosed in Note 3. The principal accounting policies adopted in the preparation of the consolidated financial statements are set in Note 21.

Basis of measurement

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

The Group maintains its records and prepares consolidated financial statements in Georgian Lari (GEL) in accordance with International Financial Reporting Standards (IFRS) as required by Georgian legislation.

Amounts in the consolidated financial statements are presented to the nearest thousand, unless otherwise stated.

The reporting period for the Group is the calendar year from 1 January to 31 December.

Going concern

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue its operations for the foreseeable future. The management and the shareholders have the intention to further develop the business of the Group in Georgia. In determining the appropriateness of the basis of preparation, the management of the Group has considered the impact of the COVID-19 pandemic on the consolidated position of the Group at 31 December 2021 and its operations in the future.

COVID-19 has interrupted the movement of people and goods throughout the world, as well as affecting the profitability and long-term viability of many entities. While many jurisdictions have experienced improved economic outlook in 2021, many jurisdictions and industries are still being affected significantly by the effects of COVID-19. This includes supply chain disruptions, changes in demand for goods and services as well as the uncertainty of future government-imposed restrictions on operations.

The Group continually assesses the effect of outbreak of COVID-19 pandemic on its consolidated financial position and performance. Due to the specifics of the Group’s activities, the demand for its services and operations in general have not decreased significantly. Management is not aware of any significant uncertainties that may give rise to significant doubts about the Group’s ability to continue as a going concern. the Management believes that going concern assumption is appropriate for the Group.

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

There are some new standards and interpretations adopted by IASB but neither of them have a significant effect on the Group’s consolidated financial statements:

- *COVID-19-Related Rent Concessions beyond 30 June 2021* (Amendments to IFRS 16); and
- *Interest Rate Benchmark Reform* – IBOR ‘phase 2’ (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and 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 Group 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); and

2. BASIS OF PREPARATION (CONTINUED)

- *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); and*
- *Deferred Tax Related to Assets and Liabilities arising from a Singe Transaction (Amendment 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 an entity 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 Group is currently assessing the impact of these new accounting standards and amendments. The Group does not believe that the amendments to IAS 1 will have a significant impact on the classification of its liabilities, as the Group does not have a convertible debt instrument with conversion feature in equity.

Other

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group 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.

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

Determination of collateral value. Management monitors market value of collateral on a regular basis. Management uses its experienced judgment to adjust the fair value to reflect current circumstances. The amount and type of collateral depends on the assessment of credit risk of the counterparty.

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

- 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 Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

As at 31 December 2021 and 31 December 2020, the Group considered the effect of on-going COVID-19 global pandemic outbreak on expected credit losses of their financial assets. The Group was not obliged to be part of the Government support measures, but on their voluntary purposes, different kinds of payment holidays were offered to its clients. These included grace periods on interest payments and renegotiation of loan terms, but substantial part only included first several months of payment holidays on interest and non-significant part the maturity date deferral.

The Group revised these modifications and considered that they have not significantly increased the credit risk of a loan due to the reason that most of these loans have already been repaid as at 31 December 2021 and 2020 as well as assessed the ageing analysis on individual basis and did not find any indications of “SICR” for significant part of those loans.

The effect of non-substantial modification of these loans were recognized in the consolidated statement of comprehensive income with the amount of GEL174 thousand and GEL309 thousand for the years ended 31 December 2021 and 2020, respectively.

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 Group. It considers all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Group 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.

Taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Group’s belief that its tax return positions are supportable, the Group believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. As a result the Group minimizes the risks related to this fact. The Group 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 outcome of these matters is different than the amounts recorded, such differences will impact tax expenses in the period in which such determination is made.

Legal proceedings. The Group only recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the consolidated financial statements. Realization of any contingent liabilities not currently recognized or disclosed in the consolidated financial statements could have a material effect on the Group’s financial position. Application of these accounting principles to legal cases requires the Group’s Management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its consolidated financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the consolidated financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group’s Management as to how it will respond to the litigation, claim or assessment. As at 31 December 2021 and 2020 the Group did not have material legal proceedings.

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

Like other financial institutions, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group’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 consolidated financial statements.

Management of risk is fundamental to the business and is an essential element of the Group’s operations. The Group is exposed through its operations to the following financial risks:

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

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

	31 December 2021	31 December 2020
Cash and cash equivalents	7,637	8,888
Loans to customers	120,885	98,159
Finance lease	-	77
Other financial assets	384	425
Borrowed funds	68,603	55,887
Other financial liabilities	427	307
Lease liabilities	7,568	6,423

General objectives, policies and processes

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

The Supervisory Board, together with its committees have overall responsibility for the determination of the Group’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 Group 's finance function.

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

The overall objective of the Board is to set polices that seek to reduce risks as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the lending and other transactions with counterparties giving rise to financial assets.

The main business of the Group is to provide micro-loans. Respectively credit risk is of crucial importance in the Micro Financing Organisations (MFO) risk management. To avoid significant financial damage caused by this, the Group uses various methods to identify and manage effectively the credit risks.

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

The Group’s credit policy is determined by the Credit Manual, where all the related procedures and requirements, along with respective controls are clearly defined, including loan disbursement, monitoring of delinquent loans, etc.

The Group established a number of credit committees which are responsible for approving credit limits.

The Credit Committee is the analytical body responsible for analysing the information in the loan applications, assessing and reducing the credit risks as much as possible. The Credit Committee is the independent body within MFO and authorized to make the final decision about financing or rejecting the loan application.

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

Exposure to credit risk is also managed, in part, by securing loans with real estate or other materially valuable item.

Assessment of the applicant’s creditworthiness through complete monitoring of its business allows timely avoiding the risk of financial loss. Monitoring is performed by credit officers who report the results to the management. For timely response to potential risks, monitoring results are presented to the management on a regular basis. The monitoring system helps to manage credit risks and timely neutralize them.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date in the consolidated statement of financial position was:

	31 December 2021	31 December 2020
Cash and cash equivalents (excluding cash on hand)	4,140	6,353
Loans to customers	120,885	98,159
Finance lease	-	77
Other financial assets	384	425
	125,409	**105,014**

The Group’s credit department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed in Note 10 and Note 21.

Market risk

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors.

Market risk arises from the Group’s use of interest bearing, tradable 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 interest rates (interest rate risk) and foreign exchange rates (currency risk).

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 Group. 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 below summarises the Group’s exposure to interest rate risks. The table presents the aggregated amounts of the Group’s interest-bearing financial assets and interest-bearing financial liabilities at carrying amounts:

	31 December 2021	31 December 2020
Total interest-bearing financial assets	120,885	98,236
Total interest-bearing financial liabilities	(76,171)	(62,310)
	44,714	**35,926**

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

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

The Group performs analysis of interest rate risk sensitivity.

The Group's all interest-bearing assets and liabilities are at fixed interest rates except for several borrowings. Total outstanding balances of these borrowings are GEL37,910 thousand as at 31 December 2021 (2020: GEL46,637 thousand).

The Group's Management estimates that market interest rate fluctuations by 1% will affect profit or loss by GEL379 thousand (2020: GEL466 thousand).

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 Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

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

Financial assets	**GEL**	**USD**	**Other currencies**	**Total**
Cash and cash equivalents	3,504	3,414	719	**7,637**
Loans to customers	118,423	2,462	-	**120,885**
Other financial assets	384	-	-	**384**
	122,311	**5,876**	**719**	**128,906**
Financial liabilities				
Borrowed funds	64,168	4,435	-	**68,603**
Other financial liabilities	427	-	-	**427**
Lease liabilities	416	7,152	-	**7,568**
	65,011	**11,587**	**-**	**76,598**
Open balance sheet position	**57,300**	**(5,711)**	**719**	**52,308**

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

Financial assets	**GEL**	**USD**	**Total**
Cash and cash equivalents	3,852	5,036	**8,888**
Loans to customers	93,217	4,942	**98,159**
Finance lease	77	-	**77**
Other financial assets	425	-	**425**
	97,571	**9,978**	**107,549**
Financial liabilities			
Borrowed funds	49,635	6,252	**55,887**
Other financial liabilities	307	-	**307**
Lease liabilities	170	6,253	**6,423**
	50,112	**12,505**	**62,617**
Open balance sheet position	**47,459**	**(2,527)**	**44,932**

The principal amounts of outstanding forward foreign exchange contracts amounted GEL5,000 (USD1,547) thousand and GEL5,000 (USD1,526) thousand as at 31 December 2021 and 2020, respectively.

Currency risk sensitivity

The following table details the Group's sensitivity to a 20% increase and decrease in the USD against the GEL. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates.

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

Impact on total consolidated comprehensive income and equity based on asset values can be presented as follows:

	31 December 2021		31 December 2020	
Currency rate sensitivity	**+20%**	**-20%**	**+20%**	**-20%**
USD impact	(1,142)	1,142	(505)	505
Other impact	144	(144)	-	-
	(998)	**998**	**(505)**	**505**

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching 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 transactions are often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to meet all cash flow obligations as they become due. The liquidity policy is reviewed and approved by Supervisory Board. The Group seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from banks, related parties, promissory notes, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

In order to manage liquidity risk, the Group performs regular monitoring of future expected cash flows, which is a part of assets/liabilities management process. Liquidity position is monitored by the Finance Department. Under the normal market conditions, information on the liquidity position are presented to the Management periodically.

An analysis of the liquidity is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group.

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

Financial liabilities	On demand and less than 1 month	More than 1 month and less than 1 year	More than 1 year	Total
Borrowed funds	32,742	7,410	28,451	**68,603**
Other financial liabilities	-	427	-	**427**
Lease liabilities	156	1,774	7,158	**9,088**
	32,898	**9,611**	**35,609**	**78,118**

As at 31 December 2021 the Group was in breach with some financial covenants for loans from local financial institutions with total amount of GEL32,108 thousand. All loans, were long-term and were subject of significant risk as a result of breach. As at 31 December 2021 the Group has classified all loans as on demand, as it obtained waivers from financial institutions after the reporting date. According to the waiver, bank does not require early repayment of loans.

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

Financial liabilities	On demand and less than 1 month	More than 1 month and less than 1 year	More than 1 year	Total
Borrowed funds	665	27,716	27,506	**55,887**
Other financial liabilities	-	307	-	**307**
Lease liabilities	99	1,337	6,420	**7,856**
	764	**29,360**	**33,926**	**64,050**

Management believes that the Group has sufficient liquidity to meet its recognised and off-balance sheet obligations.

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

Management of capital

The Group's objectives when maintaining capital are:

- To safeguard the Group's ability to continue as a going concern, so that it can continue to operate sufficiently; and
- To comply with the capital requirements set by NBG and borrowers.
- To provide an adequate return to shareholders.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Group is in compliance with minimum statutory capital requirements of GEL1,000,000 as defined by the National Bank of Georgia as at 31 December 2021 and 2020, respectively.

Fair value measurement

IFRS 7 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 prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- **Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity.

Fair value measurement requires judgement for interpretation of market data. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

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

Fair value of cash and cash equivalents is measured based on level 1. Fair values of all other financial assets and financial liabilities are measured on level 3. Fair values of these financial assets and financial liabilities approximate their book values, except for loans to customers. Fair value of loans to customers is disclosed in Note 10.

5. NET INTEREST INCOME

	2021	2020
Interest income calculated using effective interest method from:		
Loans to customers	35,232	30,228
Current bank accounts	180	193
Loans to shareholders and other related parties	-	132
	35,412	**30,553**
Interest expense from:		
Loans and borrowings	(8,776)	(7,287)
Lease liabilities	(507)	(366)
	(9,283)	**(7,653)**
	26,129	**22,900**

6. OTHER INCOME

	2021	2020
Income from penalty and commission fee	3,057	2,138
Gain from sale of repossessed assets	92	97
Net income from net assets disposal	-	513
Rent concession	-	90
Other income	246	136
	3,395	**2,974**

7. OTHER OPERATING EXPENSES

	2021	2020
Marketing and advertising	(1,737)	(1,118)
Legal and other professional services*	(991)	(804)
Utilities and communication	(640)	(479)
Consumables and office supplies	(445)	(346)
Bank fees	(411)	(317)
Loss from portfolio sale	(344)	(420)
Insurance	(221)	(134)
Short-term leases	(152)	-
Repairs and maintenance	(132)	(117)
Fuel	(108)	(71)
Security	(91)	(82)
Business trips	(28)	(11)
Other	(498)	(459)
	(5,798)	**(4,358)**

*Audit fee for the consolidated financial statements was 64 thousand (2020: 56 thousand).

8. DEFERRED TAX ASSET

	31 December 2021	31 December 2020
At 1 January	**1,347**	**1,627**
Recognized in profit and loss		
Tax expense	(127)	(280)
Derecognized deferred tax assets	(184)	-
At 31 December	**1,036**	**1,347**

Temporary differences as at 31 December 2021 can be presented as follows:

	Asset	Liability	Net	(Charged)/ credited to comprehensive income
Temporary differences	**2021**	**2021**	**2021**	**2021**
Loans to customers	1,182	-	1,182	4
Financial leasing	7	-	7	(7)
Cash and cash equivalents	3	-	3	(2)
Property and equipment	-	(156)	(156)	(66)
Intangible assets	27	-	27	8
Loans and borrowings	3	-	3	(14)
Other liabilities	67	-	67	13
Right of use assets	-	(1,048)	(1,048)	(235)
Lease liabilities	1,135	-	1,135	172
	2,424	**(1,204)**	**1,220**	**(127)**
Derecognized deferred tax assets				
Loans to customers	(184)	-	(184)	(184)
	(184)	**-**	**(184)**	**(184)**
Tax assets/(liabilities)	**2,240**	**(1,204)**	**1,036**	**(311)**
Set off of tax	(1,204)	1,204	-	-
Net tax assets	**1,036**	**-**	**1,036**	**(311)**

Temporary differences as at 31 December 2020 can be presented as follows:

	Asset	Liability	Net	(Charged)/ credited to comprehensive income
Temporary differences	**2020**	**2020**	**2020**	**2020**
Loans to customers	1,178	-	1,178	(392)
Financial leasing	14	-	14	(5)
Cash and cash equivalents	5	-	5	1
Property and equipment	-	(90)	(90)	(19)
Intangible assets	19	-	19	9
Loans and borrowings	17	-	17	3
Other liabilities	54	-	54	53
Right of use assets	-	(813)	(813)	15
Lease liabilities	963	-	963	55
Tax asset/(liabilities)	**2,250**	**(903)**	**1,347**	**(280)**
Set off of tax	(903)	903		
Net tax assets	**1,347**	**-**	**1,347**	**(280)**

8. DEFERRED TAX ASSET (CONTINUED)

Income tax expense can be presented as follows:

	2021	2020
Current tax	(1,845)	(1,149)
Effect of temporary differences	(127)	(280)
Effect of derecognized deferred tax assets	(184)	-
	(2,156)	**(1,429)**

Reconciliation of income tax expense based on statutory rate with actual income tax is as follows:

	2021	2020
Profit before income tax	**12,355**	**9,723**
Applicable tax rate	15%	15%
Theoretical income tax	(1,853)	(1,458)
Origination and reversal of permanent differences	(303)	29
	(2,156)	**(1,429)**

9. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Cash on hand	3,497	2,535
Bank balances	4,140	6,353
	7,637	**8,888**

None of the balances of cash and cash equivalents are past due. No loss allowance is recognized for balances with banks due to short-term nature.

Additional information about the currency and liquidity of cash and cash equivalents are disclosed in the Note 4.

10. LOANS TO CUSTOMERS

	31 December 2021	31 December 2020
Principle	128,743	105,731
Interest	5,617	5,834
Impairment allowance	(13,475)	(13,406)
	120,885	**98,159**

Loans to customers with the amount GEL72,752 thousand and GEL52,287 thousand were pledged as collaterals for their respective borrowings as at 31 December 2021 and 2020, respectively.

Fair value of loans to customers is GEL123,075 thousand as at 31 December 2021. Difference between carrying amount and fair value of the loans is GEL2,190 thousand. As at 31 December 2020, the difference between carrying amount and fair value of the loans was not material.

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

The Group has purchased gold portfolios in 2021 and 2020 year for GEL8,729 thousand and GEL2,248 thousand, respectively. The company conducted concentration test under IFRS 3 and, as a result, did not consider the operation as a business combination.

10. LOANS TO CUSTOMERS (CONTINUED)

Portfolio distribution as at 31 December 2021, by loan type is as follows:

	Gross Amount	Stage 1	Stage 2	Stage 3	Total ECL
Loans collateralized by real estate	12,595	(251)	(58)	(1,409)	(1,718)
Loans collateralized by vehicles	85,197	(1,876)	(449)	(6,266)	(8,591)
Loans collateralized by gold	33,810	(724)	(24)	(313)	(1,061)
Other uncollateralized consumer loans	2,758	(7)	(8)	(2,090)	(2,105)
	134,360	**(2,858)**	**(539)**	**(10,078)**	**(13,475)**

Portfolio distribution as at 31 December 2020, by loan type is as follows:

	Gross Amount	Stage 1	Stage 2	Stage 3	Total ECL
Loans collateralized by real estate	12,016	(326)	(170)	(1,019)	(1,515)
Loans collateralized by vehicles	70,888	(1,893)	(360)	(6,294)	(8,547)
Loans collateralized by gold	25,206	(510)	(15)	(230)	(755)
Other uncollateralized consumer loans	3,455	(44)	(109)	(2,436)	(2,589)
	111,565	**(2,773)**	**(654)**	**(9,979)**	**(13,406)**

Analysis by credit quality of loans outstanding at 31 December 2021 is as follows:

Loans collateralized by real estate	Gross Amount	ECL	Net Amount	ECL %
-no overdue	9,976	(412)	9,564	4%
-overdue less than 31 days	386	(54)	332	14%
-overdue 31-60 days	-	-	-	0%
-overdue 61-90 days	-	-	-	0%
-overdue more than 90 days	2,233	(1,252)	981	56%
	12,595	**(1,718)**	**10,877**	**14%**

Loans collateralized by vehicles	Gross Amount	ECL	Net Amount	ECL %
-no overdue	68,409	(1,702)	66,707	2%
-overdue less than 31 days	4,779	(337)	4,442	7%
-overdue 31-60 days	687	(167)	520	24%
-overdue 61-90 days	535	(197)	338	37%
-overdue more than 90 days	10,787	(6,188)	4,599	57%
	85,197	**(8,591)**	**76,606**	**10%**

Loans collateralized by gold	Gross Amount	ECL	Net Amount	ECL %
-no overdue	28,764	(752)	28,012	3%
-overdue less than 31 days	1,976	(75)	1,901	4%
-overdue 31-60 days	760	(31)	729	4%
-overdue 61-90 days	541	(27)	514	5%
-overdue more than 90 days	1,769	(176)	1,593	10%
	33,810	**(1,061)**	**32,749**	**3%**

10. LOANS TO CUSTOMERS (CONTINUED)

Other uncollateralized consumer loans	Gross Amount	ECL	Net Amount	ECL %
-no overdue	174	(33)	141	19%
-overdue less than 31 days	1	-	1	0%
-overdue 31-60 days	4	(2)	2	50%
-overdue 61-90 days	4	(2)	2	50%
-overdue more than 90 days	2,575	(2,068)	507	80%
	2,758	**(2,105)**	**653**	**76.32%**

Analysis by credit quality of loans outstanding at 31 December 2020 is as follows:

Loans collateralized by real estate	Gross Amount	ECL	Net Amount	ECL %
-no overdue	9,248	(315)	8,933	3%
-overdue less than 31 days	586	(114)	472	19%
-overdue 31-60 days	169	(123)	46	73%
-overdue 61-90 days	75	(39)	36	52%
-overdue more than 90 days	1,938	(924)	1,014	48%
	12,016	**(1,515)**	**10,501**	**13%**

Loans collateralized by vehicles	Gross Amount	ECL	Net Amount	ECL %
-no overdue	55,215	(1,787)	53,428	3%
-overdue less than 31 days	4,465	(429)	4,036	10%
-overdue 31-60 days	647	(204)	443	32%
-overdue 61-90 days	350	(161)	189	46%
-overdue more than 90 days	10,211	(5,966)	4,245	58%
	70,888	**(8,547)**	**62,341**	**12%**

Loans collateralized by gold	Gross Amount	ECL	Net Amount	ECL %
-no overdue	21,356	(547)	20,809	3%
-overdue less than 31 days	1,980	(67)	1,913	3%
-overdue 31-60 days	628	(27)	601	4%
-overdue 61-90 days	181	(8)	173	4%
-overdue more than 90 days	1,061	(106)	955	10%
	25,206	**(755)**	**24,451**	**3%**

Other uncollateralized consumer loans	Gross Amount	ECL	Net Amount	ECL %
-no overdue	537	(75)	462	14%
-overdue less than 31 days	40	(18)	22	45%
-overdue 31-60 days	91	(90)	1	99%
-overdue 61-90 days	35	(27)	8	77%
-overdue more than 90 days	2,752	(2,379)	373	86%
	3,455	**(2,589)**	**866**	**75%**

10. LOANS TO CUSTOMERS (CONTINUED)

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

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL-credit-impaired	Total
Balance as at 1 January 2021	**2,773**	**654**	**9,979**	**13,406**
New loans issued and purchased	4,172	33	46	**4,251**
Transfer to Stage 1	229	(229)	-	**-**
Transfer to Stage 2	(2,833)	2,833	-	**-**
Transfer to Stage 3	-	(3,273)	3,273	**-**
Repaid loans	(1,855)	(291)	(2,051)	**(4,197)**
Write off for the year	-	-	(1,314)	**(1,314)**
Recoveries of previously written off	-	-	161	**161**
Changes due to change in credit-risk	372	812	(16)	**1,168**
Balance at 31 December 2021	**2,858**	**539**	**10,078**	**13,475**

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

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL-credit-impaired	Total
Balance as at 1 January 2020	**3,260**	**335**	**8,227**	**11,822**
New loans issued and purchased	3,469	-	-	**3,469**
Transfer to Stage 1	330	(330)	-	**-**
Transfer to Stage 2	(4,001)	4,001	-	**-**
Transfer to Stage 3	-	(4,002)	4,002	**-**
Repaid loans	(1,770)	(127)	(1,601)	**(3,498)**
Write off for the year	-	-	(923)	**(923)**
Recoveries of previously written off	-	-	242	**242**
Changes due to change in credit-risk	1,485	777	32	**2,294**
Balance at 31 December 2020	**2,773**	**654**	**9,979**	**13,406**

10. LOANS TO CUSTOMERS (CONTINUED)

Movements in the gross amount of issued loans for the year ended 31 December 2021 are as follows:

	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	Total
Balance as at 1 January 2021	**89,861**	**3,690**	**18,014**	**111,565**
New loans issued and purchased	224,097	2,380	4,269	**230,746**
Transfer to Stage 1	7,223	(7,223)	-	-
Transfer to Stage 2	(23,937)	23,937	-	-
Transfer to Stage 3	-	(9,729)	9,729	-
Repaid loans	(186,047)	(8,805)	(11,613)	**(206,465)**
Write off for the year	-	-	(1,369)	**(1,369)**
Recoveries of previously written off	-	-	161	**161**
Foreign exchange loss	(229)	(9)	(40)	**(278)**
Balance at 31 December 2021	**110,968**	**4,241**	**19,151**	**134,360**

Movements in the gross amount of issued loans for the year ended 31 December 2020 are as follows:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	Total
Balance as at 1 January 2020	**84,879**	**2,600**	**14,456**	**101,935**
New loans issued and purchased	170,035	-	-	**170,035**
Transfer to Stage 1	9,371	(9,371)	-	-
Transfer to Stage 2	(25,675)	25,675	-	-
Transfer to Stage 3	-	(10,182)	10,182	-
Repaid loans	(149,016)	(5,059)	(5,747)	**(159,822)**
Write off for the year	-	-	(1,580)	**(1,580)**
Recoveries of previously written off	-	-	242	**242**
Foreign exchange gain	267	27	461	**755**
Balance at 31 December 2020	**89,861**	**3,690**	**18,014**	**111,565**

The primary factors that the Group considers whether a loan is impaired are its overdue status, financial position of a borrower and reliability of related collateral, if any. Detailed information about impairment policy is disclosed in the Note 21.

11. OTHER ASSETS

	31 December 2021	31 December 2020
Prepayments	476	306
Collateral for forward contracts*	250	250
Assets of repossessed collateral	-	109
Other receivables	134	175
	860	**840**

11. OTHER ASSETS (CONTINUED)

*Foreign exchange risk arises when the Group enters into transactions denominated in a currency other than their functional currency. Where the risk to the Group is considered to be significant, the Group's treasury will enter into a USD/GEL exchange swap contract with a local commercial banks. The collateral for forward contracts comprises cash collaterals transferred to the Bank until the agreements are matured.

The principal amounts of outstanding forward foreign exchange contracts amounted GEL5,000 (USD1,547) thousand and GEL5,000 (USD1,526) thousand as at 31 December 2021 and 2020, respectively.

Total loss from fair value change of forward contracts amounted to GEL669 thousand and GEL102 thousand during the 2021 and 2020 years, respectively.

12. TAX ASSETS/LIABILITIES

According to the Georgian Tax Legislation, the Group should pay taxes on unified treasury code applicable for all taxes. As a result, as at 31 December 2021 and 2020 the Group presents tax liabilities and assets on a net basis, amounting GEL653 thousand (liability) and GEL413 thousand (asset), respectively.

13. LEASES

Group leases a head office, land, warehouse and 22 service centers (2020: 19 service centers) around Georgia. Group has 31 contracts, rent for these spaces are fixed over the lease term and are denominated in USD and GEL. Lease terms are determined between 2 and 10 years in 2021 and 2020.

Incremental borrowing rates were between 6.24%-7.89% and 10.74%-14.27% for USD and GEL denominated leases for the year ended 2021 (2020: USD denominated 6.24%-7.91%, GEL denominated 10.77%-12.36%).

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

	Branches	Other	Total
At 31 December 2019	**4,878**	**639**	**5,517**
Addition	2,080	-	**2,080**
Depreciation	(869)	(155)	**(1,024)**
Effect on modification to lease terms	(856)	-	**(856)**
At 31 December 2020	**5,233**	**484**	**5,717**
Addition	1,499	-	**1,499**
Effect on modification to lease terms	1,156	174	**1,330**
Depreciation	(1,307)	(88)	**(1,395)**
Disposal	(154)	-	**(154)**
At 31 December 2021	**6,427**	**570**	**6,997**

13. LEASES (CONTINUED)

Lease liabilities can be presented as follows:

	Branches	Other	Total
At 31 December 2019	**5,365**	**690**	**6,055**
Addition	2,080	-	**2,080**
Interest expense	314	52	**366**
Lease payments	(1,549)	(179)	**(1,728)**
Rent concession	(54)	(36)	**(90)**
Effect on modification to lease terms	(896)	-	**(896)**
Foreign exchange movements	550	86	**636**
At 31 December 2020	**5,810**	**613**	**6,423**
Addition	1,499	-	**1,499**
Effect on modification to lease terms	1,156	174	**1,330**
Interest expense	486	21	**507**
Lease payments	(1,441)	(119)	**(1,560)**
Disposal	(225)	-	**(225)**
Foreign exchange movements	(393)	(13)	**(406)**
At 31 December 2021	**6,892**	**676**	**7,568**

14. PROPERTY AND EQUIPMENT

Historical cost	**Buildings**	**Vehicles**	**Furniture**	**IT equipment**	**Leasehold improvements**	**Total**
Historical cost 31.12.2019	**109**	**201**	**484**	**970**	**516**	**2,280**
Additions	-	26	286	193	39	**544**
Disposals	-	(40)	-	-	-	**(40)**
Effect of discontinued operations	(109)	-	-	-	-	**(109)**
Historical cost 31.12.2020	**-**	**187**	**770**	**1,163**	**555**	**2,675**
Additions	-	19	237	401	832	**1,489**
Disposals	-	(8)	-	-	(19)	**(27)**
Historical cost 31.12.2021	**-**	**198**	**1,007**	**1,564**	**1,368**	**4,137**
Accumulated depreciation						
Accumulated depreciation 31.12.2019	**(18)**	**(129)**	**(320)**	**(623)**	**(367)**	**(1,457)**
Depreciation for the year	(3)	(44)	(96)	(165)	(96)	**(404)**
Accumulated depreciation of disposals	-	29	-	-	-	**29**
Effect of discontinued operations	21	-	-	-	-	**21**
Accumulated depreciation 31.12.2020	**-**	**(144)**	**(416)**	**(788)**	**(463)**	**(1,811)**
Depreciation for the year	-	(18)	(156)	(157)	(85)	**(416)**
Accumulated depreciation of disposals	-	-	-	-	-	**-**
Accumulated depreciation 31.12.2021	**-**	**(162)**	**(572)**	**(945)**	**(548)**	**(2,227)**
Net book value						
As at 31 December 2020	**-**	**43**	**354**	**375**	**92**	**864**
As at 31 December 2021	**-**	**36**	**435**	**619**	**820**	**1,910**

15. BORROWED FUNDS

	31 December 2021	31 December 2020
Principal	68,097	55,209
Interest	506	678
	68,603	**55,887**

The Group’s major lenders are local financial institutions.

	31 December 2021	31 December 2020
Non-current liabilities		
Secured loans from financial institutions	26,283	25,910
Unsecured promissory notes and other long-term loans	2,168	553
Unsecured loans from a related party	-	1,043
	28,451	**27,506**

Current liabilities	31 December 2021	31 December 2020
Secured loans from financial institutions	35,361	12,954
Unsecured loans from a related party	986	1,085
Unsecured promissory notes and other short-term loans	3,805	6,001
Debt securities	-	8,341
	40,152	**28,381**
	68,603	**55,887**

As per contracts with financial institutions, borrowings are collateralized with the certain amounts of loans to customers, additionally refer to Note 10.

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	31 December 2021	31 December 2020
Unsecured promissory notes and other long-term loans	USD	6.5%-7.5%	2023	2,168	553
Secured loans from financial institutions	GEL	5.0%-5.5%+NBG Refinance Rate - 14.50%	2022-2024	61,644	38,864
Unsecured loans from a related party	USD	12%	2022	986	2,128
Unsecured promissory notes and other short-term loans	USD	5%-7.5%	2022	1,281	3,571
Unsecured promissory notes and other short-term loans	GEL	11%-15.5%	2022	2,524	2,430
Debt securities	GEL	14%	2021	-	8,341
				68,603	**55,887**

Part of the Group's short and long-term loan contracts contain different financial and other covenants. There is a regular communication between the lenders and the Group regarding the covenants. As at 31 December 2021 the Group was in breach with some financial covenants for loans from local financial institutions with total amount of GEL32,108 thousand. All loans, were long-term and were subject of significant risk as a result of breach.

As at 31 December 2021 the Group has classified all loans as on demand, as it obtained waivers from financial institutions after the reporting date. According to the waiver, the banks do not require early repayment of loans.

15. BORROWED FUNDS (CONTINUED)

As at 31 December 2020 the Group was in breach with some financial covenants for loans from local financial institution with total amount of GEL23,910. All loans, except one tranche with amount of GEL1,000 thousand, were long-term and were subject of significant risk as a result of breach. The Group had communication about this case in 2020 with financial institutions and got waiver from the banks for the breaches in the accounting period of 2020.

For detailed information regarding loan covenants, refer to Note 18.

Additional information on borrowed funds is disclosed in Note 4.

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

	Loans from financial institutions	Other borrowings	Total
As at 31 December 2020	**38,865**	**17,022**	**55,887**
Cash flows	15,594	(11,344)	**4,250**
Non-cash flows			
- Interest accrued in period	7,186	1,590	**8,776**
- Effects of foreign exchange	-	(310)	**(310)**
As at 31 December 2021	**61,645**	**6,958**	**68,603**

	Loans from financial institutions	Other borrowings	Total
As at 31 December 2019	**32,126**	**20,477**	**52,603**
Cash flows	1,616	(4,817)	**(3,201)**
Non-cash flows			
- Interest accrued in period	5,123	2,164	**7,287**
- Effects of foreign exchange	-	1,206	**1,206**
- Effects of discontinued operations	-	(2,008)	**(2,008)**
As at 31 December 2020	**38,865**	**17,022**	**55,887**

16. SHARE CAPITAL AND RESERVES

Shareholders	31 December 2021, %	Type	31 December 2020, %	Number of shares, 2021	Number of shares, 2020
JSC Swiss Holdings	50.00%	Ordinary	48.60%	1,250,000	1,215,000
Eyal Elboim	30.00%	Ordinary	30.00%	749,880	749,880
Amir Yoeli	17.00%	Ordinary	17.00%	425,000	425,000
Paata Daiauri	2.00%	Ordinary	2.00%	50,000	50,000
Alon Bechor	1.00%	Ordinary	2.40%	25,120	60,120
	100.00%		**100.00%**	**2,500,000**	**2,500,000**

All shares have a nominal value of USD 1.

Share premium

As at 31 December 2021 and 2020 the Group has share premium of GEL2,068 thousand which represents a difference between the par value of issued ordinary shares and the fair value of actual consideration received.

Dividends

The shareholders are entitled to receive dividends as declared by the Group and are entitled to one vote per share at annual and general meeting of the Group.

16. SHARE CAPITAL AND RESERVES (CONTINUED)

In 2021, based on the decisions of the Supervisory Board, dividends with amount GEL1,970 thousand were declared and paid to the shareholder (Amir Yoeli) (2020: GEL1,257 thousand was paid to shareholders in proportion of their ownership).

Paid dividend can be presented as follows:

Name of the shareholder	2021	2020
Amir Yoeli	1,970	282
JSC Swiss Holdings	-	730
Eyal Elboim	-	245
	1,970	**1,257**

17. DISCOUNTINUED OPERATIONS

In 2020 year following subsidiaries were sold to “Zip Credit” LLC for GEL99 thousand: “Swiss Capital Auto” LLC, “Swiss Capital Plus” LLC and “Swiss Capital Property” LLC. The main reason of their disposal was their undesirable performance which did not correspond to the Group’s management’s expectations.

The disposal of these subsidiaries can be presented as follows:

	15.12.2020
Cash consideration received	-
Other consideration received	99
Cash disposed of	(7)
Net inflow on disposal of discontinued operations	**92**
Net assets disposed of (other than cash):	
Other assets	(1,316)
Tax assets	(107)
Property and equipment	(88)
Borrowed funds	2,337
Other liabilities	138
Net assets disposal	**964**
Gain on disposal of discontinued operations	**1,056**

Result of discontinued operations can be presented as follows:

	2020
Interest income	108
Interest expense	(168)
Expenses other than interest	(117)
Loan impairment charge	(159)
Gain on disposal of discontinued operations	1,056
Profit for the year	**720**

17. DISCONTINUED OPERATIONS (CONTINUED)

The statement of cash flows includes the following amounts relating to discontinued operations:

	2020
Operating activities	75
Investing activities	-
Financing activities	(237)
Net cash outflow from discontinued operations	**(162)**

18. COMMITMENTS AND CONTINGENCIES

Litigation

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

NBG regulations

On 5 July 2018 the president of the National Bank of Georgia has approved regulation on assets classification and the creation of reserves for possible losses by Microfinance Organisations.

The Management states that the Group is in compliance with the requirements of NBG for 2021, except for the pledged assets to total capital ratio which was breached in 2021. The Group received a waiver from NBG, that set the mentioned coefficient limit at 150% until 1 September 2022. It should be noted the assessment of compliance with other ratios relies on estimates and assumptions and may involve a series of complex judgments about future events and could be differed from the judgments of regulators.

Management report

In accordance with the Law on accounting, reporting and auditing (article 7) the Group 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 Group has fulfilled this obligation at the date of issue of the consolidated financial statements.

Taxes

Georgian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. As per currently effective tax legislation in Georgia fiscal periods remain open to review by the authorities in respect of taxes for 3 calendar years preceding the period of review.

Provisions for tax liabilities are recognised when the amount can be measured reliably. No provision is recognised for uncertain tax positions if no reliable estimate can be made. The Group's management believes that Georgian tax legislation does not give raise to any further obligation other than already recorded and the Group's tax positions will be sustained.

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Covenants mainly relate to: maintaining certain financial and operating ratios, maintaining certain quality of portfolio, limits of funds received and distributed to shareholders and management of shares, agreeing on significant expenses prior to incurring them, using Group's property as collateral etc.

Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and going concern. The Group was not in compliance with covenants with some lenders as at 31 December 2021 and 2020. For details refer to Note 15.

19. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, represent:

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

b) Members of key management personnel of the Group;

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 Group and other related parties are disclosed below.

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

Financial statement caption	Note	Shareholders	Other related parties
Borrowed funds	15	986	-
Lease liabilities	13	-	31
Other assets	11	25	-
Interest expense	5	(190)	-
Other operating expenses	7	-	(235)

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

Financial statement caption	Note	Shareholders	Other related parties
Borrowed funds	15	2,128	-
Lease liabilities	13	-	31
Other assets	11	27	-
Interest expense	5	(379)	-
Other operating expenses	7	-	(342)

The remuneration of directors and other members of key management were as follows:

	2021	2020
Key management personnel compensation:		
- Short term employee benefits including salaries and bonuses	(2,221)	(2,262)

20. EVENTS AFTER REPORTING PERIOD

Changes in 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 issuance by financial organisations”, which defined and framed the behaviour of financial institutions in the process of loan disbursement. 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 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 and collateral limits/ratios were changed.

20. EVENTS AFTER REPORTING PERIOD (CONTINUED)

Starting from 1 January 2022 until the issuance of these consolidated financial statements the Group has borrowed additional funds from local financial institutions. The loans are nominated in GEL and USD and their total value is GEL34,654 thousand. Interest rates on part of the loans in GEL are fixed and range from 13.50% to 14.50%. Part of the loans in GEL have a variable interest rate - 5% + NBG Refinance Rate. Interest rate on loans nominated in USD is fixed at 12.80%. It should be noted that part of new borrowings represent refinancing of loans as at 31 December 2021. In addition, term of the loan with balance of GEL3,013 thousand as at 31 December 2021 was prolonged by 2 years.

In January and April of 2022, the Group has purchased gold pawnshop loan portfolios with the amount GEL5,038 thousand from several counteragents.

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 Group’s operations. As at 31 December 2021 and the date of these consolidated financial statements, the Group has no significant operations and balances with the companies/individuals affected by the war.

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies are consistently applied to all the years presented, unless otherwise stated.

FOREIGN CURRENCY TRANSLATION

The functional currency of the Group is the currency of the primary economic environment in which the entity operates. The Group’s functional and presentation currency is the national currency of Georgia, Lari.

Monetary assets and liabilities are translated into functional currency at the official exchange rate for the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities at year-end official exchange rates are recognized in the consolidated statement of comprehensive income. Translation at year-end rates does not apply to nonmonetary items.

At 31 December 2021 and 2020 the closing exchange rates used for translating foreign currency balances to GEL/USD were 3.0976 and 3.2766, respectively.

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are investees controlled by the Company. The Company controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Company consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control (over subsidiaries) commences until the date that control ceases.

The Company receives all the returns related to the subsidiaries’ operations and net assets and has the current ability to direct these entities’ activities.

As at 31 December 2020 the Group disposed of the following subsidiaries: “Swiss Capital Plus” LLC, “Swiss Capital Auto” LLC and “Swiss Capital Property” LLC. As for “Swiss Capital Group” LLC, the subsidiary did not have any material assets or liabilities or any business operations as at 31 December 2021 and 31 December 2020.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS

In according to IFRS 9 – „Financial instruments", the Group classifies all of its financial assets based on the business model. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). All of the Group's financial assets are measured at amortised cost.

All derivative instruments are measured at fair value through profit or loss (FVTPL).

Initial recognition of financial instruments

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

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

If the transaction price differs from fair value at initial recognition, the Group 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 Group 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 Group 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 AMORTIZED COST

Financial asset at amortised cost is the most relevant measurement category to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

A financial asset is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group’s all financial assets are measured at amortised cost, except Derivative financial assets.

BUSINESS MODEL ASSESSMENT

There are three business models available under IFRS 9:

- Hold to collect: It is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest form the counterparty.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change or to hold the assets for liquidity purposes.
- Other: all those models that do not meet the ‘hold to collect’ or ‘hold to collect and sell’ qualifying criteria.

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

The Group has considered quantitative factors and qualitative factors such as how the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel; the risks that affect the performance of the business model and, in particular, the way those risks are managed; and how managers of the business are compensated.

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

SOLELY PAYMENTS OF PRINCIPAL AND INTEREST (SPPI)

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

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

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

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

DERECOGNITION OF FINANCIAL ASSETS

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

- The rights to receive cash flows from the asset have expired, or
- The Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS

Bases for ECL principles

In according to IFRS 9 requirements the Group records an allowance for expected credit loss (ECL) on all of its debt financial assets at amortised cost or FVOCI.

Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

Under IFRS 9, The Expected Credit Loss (ECL) is recognized as soon as a financial asset is recognized. The Group first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

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

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

Stage 2: The Group recognizes a credit loss allowance at an amount equal to lifetime expected credit losses for those Financial Instruments which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default that represents the probability of default occurring over the remaining lifetime of the Financial Instrument.

Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1. Financial Instruments in stage 2 are not yet deemed to be credit-impaired.

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

Allocating issued loans on stages based on overdue days are as follows:

Collateral type	Stage 1	Stage 2	Stage 3
Real estate	0-30	31-90	>90
Vehicles	0-30	31-90	>90
Gold	0-30	31-90	>90
Uncollateralized	0-30	31-90	>90

The Group automatically assigns stage 1 to the loan when it is issued. The loan is transferred to stage 2 if one of the following events occur:

a) 31 days past due;
b) Loan restructuring;
c) Initiation of legal proceedings on collateral by third party;
d) Criminal case against debtor or co-debtor;
e) Loss of job by the borrower;

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Liquidation of a large part of the borrower's business;
g) Significant deterioration of the sector in which the borrower operates.

The loan is transferred from stage 2 to stage 1 if following events occur:

h) Overdue days are between 0 and 30;
i) Improvement of the circumstances for which the loan was moved to stage 2.

Restructured loans aren’t transferred back to stage 1.

Defaulted loans are immediately moved to stage 3 and aren’t subjected to transferring to the previous stages.

Definition of default

Default status is assigned/applied to the loan if one of the following events occur:

a) 91 days past due;
b) Death or disappearance of the debtor or co-debtor;
c) Destruction or disappearance of collateral;
d) Bankruptcy or liquidation of the business (Relevant in case of business loans).

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 Group recognizes default are credit-impaired loans.

Loan Restructuring

Restructuring operation/transaction is made within current liability. The agreement about changes in loan term is formed between the Group and borrower and the recalculation of loan schedule is done afterwards.

Loan restructuring is considered as change in credit risk for the Group. Restructured loans are not moved directly to stage 3 because such modification does not lead to material losses for the Group. Accordingly, restructured loans are moved to Stage 2. Restructured loans aren’t transferred back to stage 1.

Significant increase in credit risk

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

The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

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

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

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and

There is no unwarranted volatility in loss allowance from transfers between 12-months PD (probability of default) and lifetime PD.

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.

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Group has identified and documented the key drivers of credit risk and credit losses for the portfolio using an analysis of historical data, has assessed impact of macro-economic variables on probability of default and recovery rate. The following macro-economic variables were analyzed:

- Real growth rate of GDP of Georgia;
- Inflation rate.

Forecasting of forward-looking information

The Group uses last 5 years statistics (in case of existence) updated annually to estimate correlation between default rates and macroeconomic variables (GDP growth, inflation) and when calculating expected credit loss, specific macroeconomic forecast scenarios are taken into account if only correlation with inflation and GDP growth is more than 0.3 and less than -0.5, accordingly.

The Group uses baseline, upside and adverse scenarios provided by National Bank of Georgia. Based on the recommendation of National Bank of Georgia, probability of 50% is assigned to the baseline scenario, while the upside and adverse scenarios are given probability of 25%. The Group uses Vasicek model to adjust probability of default for forward-looking information.

As at 31 December 2021 the correlation between Group’s default rates and macroeconomic variables was not strong enough to consider them for expected credit loss’ calculation.

Measurement of ECL

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

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

Expected credit loss is measured separately for all segments. These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above. The variables (excluding EAD) are calculated annually. EAD is updated every time the loan loss provision 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.

The Group uses last 5 years statistics in case of existence (but not less than 2 years) to determine probability of default. This figure is calculated separately for all segments by applying migration matrix to the loan portfolio, which shows the probability that the loan portfolio will move from one bucket to another. Migration matrix is divided into following buckets:

Bucket	Days overdue	Restructuring status	Stage
1	Closed		
2	0	No	I
3	1-30	No	I
4	31-60	No	II
5	61-90	No	II
6	0-90	Yes	II
7	>90	Yes	III
8	>90	No	III

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In case of default, default probability of 100% is assigned to the loan.

Exposure at default (EAD)

Exposure of default (EAD): The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial asset. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals discounted at the EIR, that must not exceed the limits set by the legislation.

EAD is calculated separately for all segments and is used to determine the amount of portfolio that may be subjected to credit risk at the moment of default. This figure is measured from outstanding loan amount considering expected changes and assuming that default occurs in the mid-year. Expected changes are the scheduled principal repayments till the forecasted overdue date and interest accrued from overdue date till the date when the loan becomes default.

Prepayment rate calculated on historical data is also considered and it reduces outstanding balance till the default date (It is used in calculations if only the average maturity of the loan exceeds 12 months). Exposure at default is calculated for each year during the weighted average contractual maturity of the portfolio.

Loss given default (LGD)

LGD is is used to determine the amount of losses that may arise in case of default. In order to calculate loss given default, the Group uses loan amounts that were defaulted during last 5 years (in case of existence) and related cash inflows from default moment till reporting date.

Cash inflows are discounted by the weighted average effective interest rate that must not exceed the limits set by the legislation. Loss given default is calculated separately for all segments.

INTEREST INCOME RECOGNITION

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

FINANCIAL LIABILITIES

In according to IFRS 9 financial liabilities could be classified for one of these categories – “Financial liability at fair value through profit or loss” and “Other financial liabilities”. The Group has estimated which business model was sufficiant to the Group’s financial liabilities and has classified them as “Other financial liabilities”, except derivatives.

Derivataives are measured at amortized cost or at fair value through profit or loss (FVTPL).

The Group’s other financial liabilities comprise other liabilities, lease liabilities and borrowings.

Other financial liabilities are initially recognised at fair value plus transaction costs that are directly attributable to their release. The liabilities of such interest are subsequently recorded at amortized cost using the effective interest rate method which ensures accrual of interest on the carrying amount of the financial liability at constant rate. Interest expenses for any financial liability include the initial transaction costs and any additional charges for the redemption of the obligation.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset, and the net amount reported in the consolidate 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.

Derecognition of financial liabilities

The Group derecognises financial assets when, and only when, when the rights to receive cash flows from the contract expires or these rights shall be transferred to the other party along with all risks and benefits related to the right of ownership. Any share in the financial asset which is retained by the Group shall be recognized as a separate asset or liability.

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group derecognises financial liabilities when, and only when, the Group'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 other comprehensive income.

FAIR VALUE MEASUREMENT

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

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

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

LOANS TO CUSTOMERS AND RECEIVABLES

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, non-restricted cash on current accounts in banks, and non-restricted cash on bank deposits with original maturity of less than three months. The Group creates allowance for cash and cash equivalents which are held in commercial banks. To estimate default probability Group uses rating given to financial organization by Standard & Poor's, and default probability according to the rating. Each year the Group conducts a test to determine how accurately the probability of default, as well as 1-year ECL calculated according to IFRS 9 reflects the reality.

For this, the Group uses historical data of model PD. The test is assumed to be passed if the difference between model PD and historical default rate does not exceed one standard deviation. Otherwise, the Group determines the reasons for the deviation and makes appropriate adjustments according to it.

Impairment reserve of cash and cash equivalents is immaterial as at 31 December 2021 and 2020, therefore it is not presented in consolidated financial statements.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

BORROWED FUNDS AND OTHER LIABILITIES

Borrowed funds and other liabilities are initially recognised at fair value. Subsequently they are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings, using the effective interest method.

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES

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.

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 (as is typically the case) this is not readily determinable, in which case the Group’s incremental borrowing rate on commencement of the lease is used.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

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. The right of use assets were depreciated for a period of 2-10 years during the current and comparable period.

When the Group 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 updated discount rate that applied on lease commencement. 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. 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.

REPOSSESSED COLLATERAL

Repossessed collateral represents non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in property and equipment, investment property or inventories within other assets depending on their nature and the intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

PROPERTY AND EQUIPMENT

All property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or devalued amounts to their residual values over their estimated useful lives, as follows:

Group	Useful life (year)
Buildings	30
Vehicles	5
Furniture	5
IT equipment	5-7
Leasehold improvements	7

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

INTANGIBLE ASSETS

All the Group's intangible assets have definite useful life (7 years) and primarily include capitalized computer software.

Acquired computer software licenses are capitalized based on the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Intangible assets are amortized on a straight-line basis over expected useful lives of seven years.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in consolidated statement of comprehensive income.

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

A reversal of an impairment loss is recognized immediately in consolidated statement of comprehensive income.

TAXATION

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated 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 the country where the Group operates 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 based on 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 consolidated financial statements.

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

However, 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 rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

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

SHARE CAPITAL, SHARE PREMIUM AND DIVIDENDS

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

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

Other reserves represent share issued by the Group and transferred to existing shareholders as an increase of share capital free of charge.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

RECOGNITION OF INTEREST INCOME AND EXPENSE

Interest income and expense are recorded in the consolidated statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed based on the actual service provided as a proportion of the total services to be provided.

Additional information for recognition of interest income is disclosed above, in the article **“INTEREST INCOME RECOGNITION”.**

STAFF COSTS AND RELATED CONTRIBUTIONS

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

RECOGNITION OF OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses are recognized in the consolidated 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.

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

21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period and events before the date of consolidated financial statements authorization for issue, that provide additional information about the Group’s consolidated financial statements, are reported in the consolidated financial statements. Events after the reporting period that do not affect the consolidated financial position of the Group at the balance sheet date are disclosed in the Notes to the consolidated financial statements when material.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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

A legal obligation is an obligation that derives from:

(a) A contract (through its explicit or implicit terms);

(b) Legislation; or

(c) Other operation of law.

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

(a) By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

DISCONTINUED OPERATIONS

Discontinued operations refer to a component of a Group, which is disposed of or classified as held for sale and:

a) Represents a separate core business activity of the enterprise or a geographical area of operations;

b) Is a part of a unified coordinated planning for the sale of the geographical area of a separate core business operation;

c) Is a subsidiary acquired specifically for the purpose of further sale.

Income and cash flows from discontinued operations should be listed separately on the consolidated statement of comprehensive income from the results obtained from continuing operations.