JSC Paysera Bank Georgia

Financial Statements

Together with the Independent Auditor's Report

For the year ended 31 December 2023

Contents:

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Georgia

independent auditor's report

To shareholders and supervisory board of **JSC PAYSERA BANK GEORGIA**

Opinion

We have audited the accompanying financial statements of **JSC Paysera BANK GEORGIA** (hereinafter the "Bank"), which comprise the statements of financial position as at 31 December 2023 and the statement of comprehensive income, statement of cash flows and changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the financial statements, management is responsible for assessing the bank'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 bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the financial statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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 Bank'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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation; structure and content of the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Ivane Zhuzhunashvili (Saras-A-720718)

For and on behalf of BDO Audit LLC

Tbilisi, Georgia

8 May 2024

JSC PAYSERA BANK GEORGIA

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

(In ‘000 GEL)

	Note	31.12.2023	31.12.2022
Assets			
Cash and cash equivalents	7	9,556	6,444
Mandatory cash balances with the NBG	8	66	-
Other assets		28	10
Intangible assets	9	200	202
Right-of-use assets	10	196	303
Property and equipment	11	241	260
Total assets		**10,287**	**7,219**
Liabilities			
Customer accounts	12	1,263	-
Lease liabilities	10	185	287
Other financial liabilities	13	766	-
Deferred tax liability	14	5	41
Other liabilities		98	26
Total liabilities		**2,317**	**354**
Equity			
Equity shares	15	3,700	3,250
Accumulated loss		(1,745)	(386)
Additional paid in capital	15	6,015	4,001
Total equity		**7,970**	**6,865**
Total liabilities and equity		**10,287**	**7,219**

The financial statements for the year ended 31 December 2023 were approved on behalf of the management on 8 May 2024 by:

General director	______________________	Dimitry Kumsishvili
Finance director	______________________	Tamara Metivishvili

Notes on pages 9-28 are an integral part of these financial statements.

JSC PAYSERA BANK GEORGIA

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

(In '000 GEL)

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STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

(In ‘000 GEL)

	Note	2023	2022*
Interest income	16	237	98
Interest expense		(9)	(4)
Net interest income		**228**	**94**
Net commission income		10	-
Income/(loss) from foreign currency operations, net		74	(13)
Foreign exchange loss, net		(56)	(329)
Other income		-	56
Non-interest income		**28**	**(286)**
Staff cost		(1,052)	(123)
Depreciation and amortization		(183)	(25)
General and administrative expenses	17	(452)	(254)
Loss before tax		**(1,431)**	**(594)**
Income tax revenue/(expense)	14	36	(41)
Total comprehensive loss for the year		**(1,395)**	**(635)**

(*) – The year ended 31 December 2022, Includes post-establishment operations from March 1 to December 31, 2022.

Notes on pages 9-28 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

(In ‘000 GEL)

	Note	2023	2022
Cash flows from operating activities			
Staff costs paid		(1,052)	(67)
Administrative and other operating expenses paid		(471)	(235)
Interest received		237	98
Cash flows used in operating activities before changes in operating assets and liabilities		**(1,286)**	**(204)**
Net change in operating assets			
Due from other banks and mandatory cash balances with the National Bank of Georgia		66	-
Loans issued		-	(5,420)
Proceeds from loans issued		-	5,198
Net change in operating liabilities			
Customer accounts		1,263	-
Other financial liabilities		766	-
Net cash flows from/(used in) operating activities		**809**	**(426)**
Cash flows used in investing activities			
Acquisition of property, equipment and intangible assets		(55)	(465)
Net cash flows used in investing activities		**(55)**	**(465)**
Cash flows from financing activities			
Repayment of lease liabilities		(107)	(37)
Receipt of subordinated loans	15	2,050	4,250
Issue of share capital	15	450	3,250
Net cash from financing activities		**2,393**	**7,463**
Effect of exchange rate changes on cash and cash equivalents		(35)	(128)
Net increase in cash and cash equivalents		**3,112**	**6,444**
Cash and cash equivalents at the beginning of the year	7	**6,444**	**-**
Cash and cash equivalents at the end of the year	7	**9,556**	**6,444**

Notes on pages 9-28 are an integral part of these financial statements.

JSC PAYSERA BANK GEORGIA

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

(In '000 GEL)

	Note	Share capital	Subordinated loan	Accumulated loss	Total equity
31.12.2021		**-**	**-**	**-**	**-**
Issue of share capital	15	3,250	-	-	**3,250**
Total comprehensive loss for the year		-	-	(635)	**(635)**
Subordinated loans received	15	-	4,250	-	**4,250**
Revaluation of perpetual subordinated loan		-	(249)	249	**-**
31.12.2022		**3,250**	**4,001**	**(386)**	**6,865**
Issue of share capital	15	450	-	-	**450**
Total comprehensive loss for the year		-	-	(1,395)	**(1,395)**
Subordinated loans received	15	-	2,050	-	**2,050**
Revaluation of perpetual subordinated loan		-	(36)	36	**-**
31.12.2023		**3,700**	**6,015**	**(1,745)**	**7,970**

Notes on pages 9-28 are an integral part of these financial statements.

1. General information

JSC Paysera Bank Georgia (hereinafter the "Bank") was incorporated in 1 March, 2022. Initially, it was registered in the register as a limited liability company - Paysera Georgia LLC (hereinafter "Company"). On August 19, 2022, the Company underwent reorganization, in particular, the legal form was changed and it was established as a joint-stock company. Today, the joint-stock company "Paysera Bank Georgia" operates in accordance with the legislation of Georgia and is registered with the identification number: 402204841.

The bank operates under a banking license issued by the National Bank of Georgia ("NBG"). In 2022, the National Bank of Georgia granted a banking license to JSC "Paysera Georgia", taking into account the principles of digital bank licensing, however, the authority to carry out banking activities in real mode was limited to 4 months, which, as explained in the note 16, was later extended for another two months. The granting of the authority to carry out banking activities in real mode, as a result of fulfilling the license requirements, based on the consent issued by the National Bank of Georgia, will be done in stages. "JSC Paysera Georgia" worked in the test mode during 2022, and from June 15, 2023, it received rights set out in Decree N283 issued by the Vice President of the National Bank of Georgia, including the right to attract deposits and current accounts of customers.

The Bank's address is: 4/2 Akaki Tsereteli avenue, Tbilisi, Georgia.

As at 31 December 2023 and 2022 the shareholders of the Bank are:

	31.12.2023	31.12.2022
Iravki Vekua	27.03%	30.77%
Dimitry Kumsishvili	27.03%	30.77%
Ivane Tevdorashvili	27.03%	16.92%
Mindia Sabanadze	10.13%	11.54%
Zaza Buadze	8.78%	10.00%
	100%	**100%**

Average annual number of employees of the Bank (Fixed contracts) by category is presented as follows:

	2023	2022
Top management	3	3
Middle managers	1	1
Other employees	17	10

The Bank had no temporary employment contracts during 2023 and had 1 temporary employee in 2022.

2. Basis of preparation

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

Basis of measurement

The Bank prepares financial statements in Georgian Lari (with roundings '000). The financial statements have been prepared on the historical cost basis. The reporting period for the Bank is the calendar year from January 1 to December 31. Statement of total comprehensive income of the Bank for year 2022 includes post-establishment operations from March 1 to December 31, 2022.

These financial statements have been prepared based on the bank's accounting records.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying The Bank's accounting policies, which has significant influence on the book values of assets and liabilities, income and expense recognized in profit and loss of the year. Factual results may be different from the current estimates. Adjustments, resulting from the changes in accounting estimates belong to the period when they are recognized. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 4.

Summary of significant accounting policies used for preparing these financial statements are explained in Note 3.

2. Basis of preparation (continued)

Going concern

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

In adopting the going concern basis for preparing the financial statements, the Management have considered the bank’s business activities, objectives and strategy, principal risks and uncertainties in achieving its objectives, and performance.

Management confirm that they have a reasonable expectation that the Bank, as a whole, have adequate resources to continue in operational existence for the 12 months from the date the financial statements are authorised for issue. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank’s ability to continue as a going concern for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

Changes in accounting policies

A) Standards and Amendments Mandatorily Effective from 1 January 2023:

IFRS 17 Insurance Contracts. IFRS 17 introduces an internationally consistent approach to the accounting for insurance contracts. Prior to IFRS 17, significant diversity has existed worldwide relating to the accounting for and disclosure of insurance contracts, with IFRS 4 permitting many previous (non-IFRS) accounting approaches to continue to be followed. IFRS 17 will result in significant changes for many insurers, requiring adjustments to existing systems and processes. The new standard takes the view that insurance contracts combine features of a financial instrument and a service contract, and that many generate cash flows that vary substantially over time. It therefore takes the approach of:

• Combining current measurement of future cash flows with recognising profit over the period that services are provided under the contract

• Presenting insurance service results (including insurance revenue) separately from insurance finance income or expenses, and

• Requiring an entity to make an accounting policy choice for each portfolio whether to recognise all insurance finance income or expenses for the reporting period in profit or loss, or to recognise some in other comprehensive income.

Subsequent to the issue of IFRS 17, amendments to the standard and deferral of effective dates have been made.

Disclosure of Accounting Policies (Amendment to IAS 1 and IFRS Practice Statement 2). In February 2021, the IASB issued amendments to IAS 1, which change the disclosure requirements with respect to accounting policies from ‘significant accounting policies’ to ‘material accounting policy information’. The amendments provide guidance on when accounting policy information is likely to be considered material. The amendments to IAS 1 are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. As IFRS Practice Statements are non-mandatory guidance, no mandatory effective date has been specified for the amendments to IFRS Practice Statement 2.

Definition of Accounting Estimates (Amendment to IAS 8). In February 2021, the IASB issued amendments to IAS 8, which added the definition of Accounting Estimates in IAS 8. The amendments also clarified that the effects of a change in an input or measurement technique are changes in accounting estimates, unless resulting from correction of prior period errors.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12). In May 2021, the IASB issued amendments to IAS 12, which clarify whether the initial recognition exemption applies to certain transactions that result in both an asset and a liability being recognised simultaneously (e.g. a lease in the scope of IFRS 16).

2. Basis of preparation (continued)

The amendments introduce an additional criterion for the initial recognition exemption under IAS 12.15, whereby the exemption does not apply to the initial recognition of an asset or liability which at the time of the transaction, gives rise to equal taxable and deductible temporary differences.

According to the assessment of the Company’s management, these changes will not have a significant impact on the Company's financial statements.

B) NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE:

Standards and Amendments Mandatorily Effective from 1 January 2024

Supplier Finance Arrangements (Amendment to IAS 7 and IFRS 7). On 25 May 2023, the IASB issued Supplier Finance Arrangements, which amended IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures (the Amendments). These Amendments arose as a result of a submission received by the IFRS Interpretations Committee (the Committee) about the presentation requirements for liabilities and associated cash flows arising out of supply chain financing arrangements and related disclosures. In December 2020, the Committee published an Agenda Decision Supply Chain Financing Arrangements—Reverse Factoring that addressed this submission based on the requirements in IFRS Accounting Standards existing at that time. During this process, the feedback from stakeholders indicated limitations of the then existing requirements to address important information needs of users to understand the effects of supplier finance arrangements on an entity’s financial statements and to compare one entity with another. In response to this feedback, the IASB undertook a narrow-scope standard setting, leading to the Amendments. The Amendments require entities to provide certain specific disclosures (qualitative and quantitative) related to supplier finance arrangements. The Amendments also provide guidance on characteristics of supplier finance arrangements.

Lease Liability in a Sale and Leaseback (Amendment to IFRS 16). The IFRS Interpretations Committee issued an agenda decision in June 2020 – Sale and leaseback with Variable Payments. This matter was referred to the IASB for standard setting for some aspects. The IASB issued the final amendments in September 2022. The Amendments provide a requirement for the seller-lessee to determine ‘lease payments’ or ‘revised lease payments’ in a way that the sellerlessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

Classification of Liabilities as Current or Non-Current (Amendment to IAS 1). The IASB issued amendments to IAS 1 - Classification of Liabilities as Current or Non-current in January 2020, which have been further amended partially by amendments Non-current Liabilities with Covenants issued in October 2022. The amendments require that an entity’s right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement for at least twelve months after the reporting period. As a result of the COVID-19 pandemic, the Board deferred the effective date of the amendments by one year to annual reporting periods beginning on or after 1 January 2024.

Amendment – Noncurrent Liabilities with Covenants (Amendment to IAS 1). Subsequent to the release of amendments to IAS 1 Classification of Liabilities as Current or Non-Current, the IASB amended IAS 1 further in October 2022. If an entity’s right to defer is subject to the entity complying with specified conditions, such conditions affect whether that right exists at the end of the reporting period, if the entity is required to comply with the condition on or before the end of the reporting period and not if the entity is required to comply with the conditions after the reporting period. The amendments also provide clarification on the meaning of ‘settlement’ for the purpose of classifying a liability as current or non-current.

According to the assessment of the Bank’s management, these changes will not have a significant impact on the Company's financial statements.

(In ‘000 GEL)

2. Basis of preparation (continued)

C) STANDARDS AND AMENDMENTS MANDATORILY EFFECTIVE FROM 1 JANUARY 2025

Lack of Exchangeability (Amendment to IAS 21) On 15 August 2023, the IASB issued Lack of Exchangeability which amended IAS 21 The Effects of Changes in Foreign Exchange Rates (the Amendments). The Amendments arose as a result of a submission received by the IFRS Interpretations Committee (the Committee) about the determination of the exchange rate when there is a long-term lack of exchangeability. IAS 21, prior to the Amendments, did not include explicit requirements for the determination of the exchange rate when a currency is not exchangeable into another currency, which led to diversity in practice. The Committee recommended that the IASB develop narrow-scope amendments to IAS 21 to address this issue. After further deliberations, the IASB issued an exposure draft of the proposed amendments to IAS 21 in April 2021 and the final amendments were issued in August 2023. The Amendments introduce requirements to assess when a currency is exchangeable into another currency and when it is not. The Amendments require an entity to estimate the spot exchange rate when it concludes that a currency is not exchangeable into another currency.

Other

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

3. Summary of significant accounting policies

Foreign currency transactions

a) Functional and presentation currency

Items included in the financial Statements are measured using the currency of the primary economic environment in which the Bank operates (‘the functional currency’). Financial Statements are presented in Georgian lari, which is the Bank’s functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are premeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Foreign exchange gains and losses that relate to monetary items are presented in the statement of comprehensive income within “Exchange rate gain/ (loss), net”.

The closing rate of exchange used for translating foreign currency balances was:

	Official rate of the National Bank of Georgia	
	USD	**EUR**
Exchange rate as at 31.12.2023	2.6894	2.9753
Exchange rate as at 31.12.2022	2.7020	2.8844

Financial instruments

Initial measurement

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

3. Summary of significant accounting policies (continued)

Financial assets- Classification and subsequent measurement

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset’s contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. The Bank classifies all the of its financial assets under “Financial assets measured at amortized cost” category.

The Bank only measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- 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 (SPPI).

Impairment
At the end of each reporting period, the Bank assesses expected credit losses on financial and contractual assets and recognizes net impairment losses.

Financial assets – wrire-off

Financial assets are written off in whole or in part when the Bank has exhausted all practical possibilities for withdrawing cash and concludes that there is no longer a reasonable expectation of cash withdrawal. Write-off is the termination of recognition.

Financial assets – derecognition

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control.

Offsetting of financial assets and liabilities

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

Financial liabilities

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

Financial liabilities – derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

3. Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia (NBG), excluding mandatory cash balances, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC in the statement fo financial position.

Mandatory cash balances with the National Bank of Georgia

Mandatory cash balances with the NBG are carried at AC and represent mandatory reserve deposits that are not available to finance the Bank’s day to day operations. Hence, they are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Taxation

The current income tax expense is calculated in accordance with the regulations of Georgia. It represents the sum of the current and deferred tax expenses. Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method.

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Georgia also has various operating taxes, which are assessed on the Bank’s activities. These taxes are included as a component of general and administration expenses.

Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and recognized impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is charged on the carrying value of property, plant and equipment and is designed to write off assets over their useful economic lives. Depreciation on all classes of property and equipment is calculated on a straight-line basis to allocate their cost over the following estimated useful lives:

Class	Useful life (year)
Leasehold improvement	3
Computers and office equipment	4
Furniture and fittings	4-6
Other	6

Assets’ useful lives are reviewed, and adjusted perspectively if appropriate, at the end of each reporting period. Write offs are recognized in the total comprehensive income of the financial statements.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets as of 31 December, 2023 and 2022 primarily include a banking license. A banking license has an indefinite useful life and is not amortized. Other intangible assets have finite useful lives and amortization is charged under straight line method according to the useful life.

3. Summary of significant accounting policies (continued)

Impairment of non-financial assets

At each reporting date, the Company 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’s not possible to estimate the recoverable amount of an individual asset, the Company 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 the statement of other 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 the statement of other comprehensive income.

Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Other financial liabilities

Other financial liabilities arise from the use of a correspondent account of non-resident banks. They are carried out at amortised cost.

Share capital

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

Perpetual subordinated loan

Due to the indefinite term and the ability to cancel interest payemnets without making accruals, the Bank accounts for the perpetual subordinated loan as an equity instrument and as a Tier 1 capital instrument for purposes of calculating the capital adequacy ratio. The bank records the perpetual subordinated loan in USD as an equivalent amount of GEL, using the exchange rate valid for the reporting date, and the effect of currency revaluation is recorded in retained earnings.

Recognition of income and expenses

The Bank calculates interest income on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options)

and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset.

3. Summary of significant accounting policies (continued)

If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest revenue on a gross basis. For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Provisions, contingent liabilities and contingent assets

Contingent liabilities are not reflected in the financial statements, except for the cases when the outflow of economic benefits is likely to origin and the amount of such liabilities can be reliably measured.

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

Leases

Bank as lessee

Identifying the lease

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

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

Initial recognition

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

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

Leases are recognized on the Bank’s balance sheet as follows:

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

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

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

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

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

- The amount of the initial measurement of the lease liability;

3. Summary of significant accounting policies (continued)

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

Subsequent measurement

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

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

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

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

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

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

Determination of lease term

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

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

Determination of incremental borrowing rate (IBR)

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

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

3. Summary of significant accounting policies (continued)

Determination of lease payments

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

Staff costs

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

Events after the reporting period

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

4. Critical accounting estimates and judgments

The Bank 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.

Taxation - Tax legislation in Georgia is subject to varying interpretations, and changes can occur frequently. Management interpretation of such legislation and changes as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. As such, additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three years including the year of review. Management believes that as at 31 December 2023 its interpretation of the relevant legislation is appropriate, and that the Bank’s tax position will be sustained.

Useful lives of property and equipment - Property and equipment are depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of comprehensive income in specific periods.

Determination of the lease term for the contracts, where the company is presented as lessee - At the commencement date, an entity assesses whether the lessee is reasonably certain to exercise an option to extend the lease or to purchase the underlying asset, or not to exercise an option to terminate the lease. The entity considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option. Examples of factors to consider include, but are not limited to:

(a) contractual terms and conditions for the optional periods compared with market rates, such as:

(i) the amount of payments for the lease in any optional period;

(ii) the amount of any variable payments for the lease or other contingent payments; and

(iii) the terms and conditions of any options that are exercisable after initial optional periods

(b) significant leasehold improvements undertaken (or expected to be undertaken) over the term of the contract that are expected to have significant economic benefit for the lessee when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable;

(c) costs relating to the termination of the lease, such as negotiation costs, relocation costs, costs of identifying another underlying asset suitable for the lessee’s needs, costs of integrating a new asset into the lessee’s operations, or termination penalties and similar costs, including costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location;

4. Critical accounting estimates and judgments (continued)

(d) the importance of that underlying asset to the lessee’s operations, considering, for example, whether the underlying asset is a specialised asset, the location of the underlying asset and the availability of suitable alternatives; and

(e) conditionality associated with exercising the option (i.e., when the option can be exercised only if one or more conditions are met), and the likelihood that those conditions will exist.

Details regarding the terms of the contracts where the Company is presented as lessee are disclosed in Note 8.

Determination of incremental borrowing rate (IBR) for lease contracts, where the company is presented as lessee- 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). The company applied a single discount rate to a portfolio of leases with reasonably similar characteristics;

Details regarding to the incremental borrowing rate (IBR) for contracts where the Company is presented as lessee are disclosed in Note 8.

5. Financial instruments – risk management

Risk is inherent in the Bank’s activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank’s continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, market risk, operational risk and other non-financial risks. The risk management framework adopted by the Bank sets the boundaries of risk bearing capacity for each risk and business line and ensures its compliance.

The directorate of the Bank has overall responsibility for the establishment and oversight of the Bank’s risk management framework, oversight of key risk management and review of its risk management policies and procedures, as well as approval of materially large subordinates.

The Supervisory Board is ultimately responsible for risk identification and control; However, there are separate independent bodies responsible for risk management and monitoring. The risk is currently managed by the following entities:

- Credit risk is managed by the Credit Risk Committee;
- Liquidity risk is managed by the Bank’s financial department, Treasury Department;
- Market risk is managed by the Bank’s financial department, Treasury Department;
- Operational risk is managed by the Risk Management Department.

Credit risk

The Bank is exposed to credit risk, which is the risk that a customer or counterparty will be unable to meet its obligation to settle outstanding amounts. The Bank's exposure to credit risk arises as a result of its lending operations and other transactions with counterparties giving rise to financial assets. Maximum exposure to credit risk of on-balance sheet items equals their carrying values.

The Bank uses ECL model for determining impairment loss of financial assets. Management evaluates how the economic factors effect on ECL, that is determined using the weighted probability. According to IFRS 9 impairment provision is determined with: a) 12-month expected credit losses - the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date; b) Lifetime expected credit losses - the expected credit losses that result from all possible default events over the expected life of a financial instrument.

The lifetime expected credit loss assessment model applies when the credit risk of a financial asset for the reporting period has significantly increased compared to its initial recognition, and if the risk has not increased, the 12-month expected credit loss applies. A company can determine that the credit risk of a financial asset has not increased significantly if the asset has a low credit risk for the reporting period. However, lifetime expected credit losses always apply to trade and other receivables.

(In '000 GEL)

5. Financial instruments – risk management (continued)

As at 31 December 2023 and 2022, the Bank has not recorded expected credit losses in the financial statements, because in the management's opinion, the financial assets of the company - cash and cash equivalents and the cash balance in the National Bank of Georgia at the end of the reporting period represent "neither impaired nor overdue assets category" and expected credit loss on these assets is equal to 0.

Market risk

Market risk is the risk that affect the overall performance of the financial market. The main types of market risks include interest rates risk, currency risk and their levels of volatility. Apart from assets in foreign currency (cash at banks), the bank has no significant market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. As at 31 December 2023 and 2022, the Bank is not substantially exposed to interest rate risk, as it has no financial assets or liability balances bearing variable interest rates.

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 Company's exposure to foreign currency exchange rate risk is presented in the table below:

	GEL	USD	EUR	31.12.2023
Financial Assets				
Cash and cash equivalents	1,765	6,274	1,517	**9,556**
Mandatory cash balances with the NBG	-	44	22	**66**
	1,765	**6,318**	**1,539**	**9,622**
Financial liabilities				
Customer accounts	545	452	266	**1,263**
Lease liabilities	-	185	-	**185**
Other financial liabilities	-	-	766	**766**
Other liabilities	24	64	10	**98**
	569	**701**	**1,042**	**2,312**
Open balance sheet position	**1,196**	**5,617**	**497**	

	GEL	USD	EUR	31.12.2022
Financial Assets				
Cash and cash equivalents	2,419	4,013	12	**6,444**
	2,419	**4,013**	**12**	**6,444**
Financial liabilities				
Lease payables	-	287	-	**287**
Other liabilities	26	-	-	**26**
	26	**287**	**-**	**313**
Open balance sheet position	**2,393**	**3,726**	**12**	

Currency risk sensitivity

The following table details the Bank's sensitivity to a 20% increase and decrease in relevant currencies 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.

(In ‘000 GEL)

5. Financial instruments – risk management (continued)

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 20% change in foreign currency rates.

Impact on net loss based on asset values is presented in the table below:

31.12.2023	**GEL/USD**		**GEL/EUR**	
	20%	-20%	20%	-20%
Profit/(loss)	1,123	(1,123)	99	(99)

31.12.2022	**GEL/USD**		**GEL/EUR**	
	20%	-20%	20%	-20%
Profit/(loss)	745	(745)	2	(2)

Liquidity risk

Liquidity risk is the risk that the bank will not be able to meet its payment obligations on the maturity date under normal and stressed conditions.

Statutory requirements

Approved and published on 15 May 2017 by the NBG (Decree N70/04), liquidity coverage ratio (LCR) regulation, became effective on 1 September 2017. The LCR is calculated following Basel III framework, however, higher run-off rates apply. The NBG requires all banks to maintain the LCR of 75.0% in GEL, and LCR of 100.0% in foreign currency and total LCR of 100% on a daily basis.

As at 31 December 2023 and 2022, the Bank meets the above requirements.

Analysis by remaining contractual maturities

The tables below summarise the maturity profile of the Bank’s financial liabilities as at 31 December 2023 and as at 31 December 2022 based on contractual undiscounted repayment obligations.

	Within one year	**More than one year**	**31.12.2023**
Liabilities			
Lease payables	109	91	**200**
Other liabilities	98	-	**98**
Other financial liabilities	766	-	**766**
Customer accounts	1,263	-	**1,263**
Total potential future payments for financial obligations	**2,236**	**91**	**2,327**

	Within one year	**More than one year**	**31.12.2022**
Liabilities			
Lease payables	110	202	**312**
Other liabilities	26	-	**26**
Total potential future payments for financial obligations	**136**	**202**	**338**

Operational risk

Operational risk is defined as the risk of a financial loss resulting from the inadequacy or failure of internal processes, systems or people, or from external events, whether deliberate, accidental or natural occurrences

5. Financial instruments – risk management (continued)

It is impossible to eliminate all operational risks, but by correctly identifying potential risks and implementing appropriate control mechanisms, the bank can manage risks. The control mechanisms should provide for the correct distribution of rights and duties, hierarchical structures of access, authorities and the introduction of the four eyes principle, the establishment of a risk-oriented culture among staff, training and evaluation processes, including the use of internal audit.

Operational risk management is carried out by the Bank’s Risk Department and its compliance with existing challenges is monitored by the Risk Committee.

IFRS 7 fair value measurement hierarchy

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:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- 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 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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

All the financial instruments of the Bank are recognized with amortized costs.

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

The fair value of cash and cash equivalents was determined using level 1 measurement, fair values of other financial assets and liabilities were determined using level 3 measurement.

Cash and cash equivalents, Mandatory cash balances with the National Bank of Georgia, Liabilities arising from the use of a correspondence account, lease liabilities and other financial liabilities are carried at amortized cost which approximates their current fair value.

6. Capital management

The Bank’s capital management main objectives consist of:

- Ensuring that the bank always has sufficient capital so that even in the worst cases it can cover (potential) losses caused by various risks;
- To be in compliance with the external capital management requirements established by the regulatory body of the banking sector of Georgia;
- Implementation of stable development plans by the bank according to the principle of continuous operation.

According to the requirements of National Bank of Georgia, as at 31 December 2023 and 2022, the Common Equity Tier 1 capital (CET 1), Tier 1 capital (Tier 1) and Total capital ratios were determined at the level of 4.50%, 6.00% and 8.00% respectively. Capital conservation buffer is set up to 2.5%, countercyclical and systemic risk buffers are set within 0-2.5%.

Capital adequacy ratios are calculated monthly in accordance with the Basel III capital adequacy framework of the NBG.

(In ‘000 GEL)

6. Capital management (Continued)

As at 31 December 2023 Bank maintained capital adequacy requirements set by the NBG. Details are presented in the table:

	Capital ratio	Capital requirement
Common Equity Tier 1 capital (CET 1)	**39.01%**	**7.25%**
Tier 1 capital (Tier 1)	**172.72%**	**8.75%**
Regulatory Capital Ratio	**172.72%**	**10.75%**

As at 31 December 2023 Bank maintained capital adequacy requirements set by the NBG. Details are presented in the table:

	Capital ratio	Capital requirement
Common Equity Tier 1 capital (CET 1)	**86.80%**	**7.00%**
Tier 1 capital (Tier 1)	**216.46%**	**8.50%**
Regulatory Capital Ratio	**216.46%**	**10.50%**

7. Cash and cash equivalents

	31.12.2023	31.12.2022
Correspondent accounts with other banks	4,620	6,444
Term Deposits	2,696	-
Overnight placements with other banks	1,302	-
Cash balances with NBG (other than mandatory reserve deposits)	635	-
Cash on hand	303	-
	9,556	**6,444**

Qualitative information about cash and cash equivalents are provided in Note 5.

As at 31 December 2023 and 2022 Fitch Ratings for Georgia's Long-Term Foreign and Local-Currency Issuer Default Ratings (IDRs) are 'BB+' with a Positive outlook (2022: 'BB+'). The issue ratings on Georgia's long-term senior unsecured foreign and local-currency bonds are also affirmed at 'BB+' with a Positive outlook (2022: 'BB+'). The Country Ceiling is affirmed at 'BBB-' (2022: 'BBB-') and the Short-term Foreign and Local-Currency IDRs at 'B' (2022: 'B').

As at 31.12.2023 and 31.12.2022, the bank has placed its funds in banks with "BB" "B+" (2022: "BB-") credit rating. Management assumes that expected credit losses are immaterial as of the reporting dates.

8. Mandatory cash balances with the NBG

Mandatory cash balances with the National Bank of Georgia (“NBG”) represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions.

Mandatory reserves in NBG amounts to GEL 66 thousand as at December 31, 2023 (2022: GEL0).

Qualitative information about mandatory reserves in the National Bank of Georgia is provided in Note 5.

9. Intangible assets

The bank's intangible assets consist of a banking license (cost: GEL200 thousand) and software (cost: GEL2 thousand), Total amortization charged on intangible assets during the period amounts to: GEL2 thousand.

(In ‘000 GEL)

10. Lease

The Bank has leased administrative office. Lease payments consist of fixed payables and are presented in USD. Incremental borrowing rate for the lease amounted to 8%.

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

	2023	2022
1 January	**303**	**-**
Additions	-	321
Depreciation	(107)	(18)
31 December	**196**	**303**

Lease liabilities can be presented as follows:

	2023	2022
1 January	**287**	**-**
Additions	-	321
Interest expense	8	4
Lease payments	(107)	(30)
Foreign exchange rate differences	(3)	(8)
31 December	**185**	**287**

The fair value of lease liabilities does not differ from their book value. Qualitative information about lease liabilities is presented in Note 5.

11. Property and equipment

Histoical cost	Leasehold improvements	Furniture and fittings	Computers and office equipment	Other	Total
31.12.2021	**-**	**-**	**-**	**-**	**-**
Additions	104	79	61	19	**263**
31.12.2022	**104**	**79**	**61**	**19**	**263**
Additions	-	30	7	18	**55**
31.12.2023	**104**	**109**	**68**	**37**	**318**
Accumulated depreciation					
31.12.2021	**-**	**-**	**-**	**-**	**-**
Depreciation	-	(1)	(2)	-	**(3)**
31.12.2022	**-**	**(1)**	**(2)**	**-**	**(3)**
Depreciation	(37)	(16)	(16)	(5)	**(74)**
31.12.2023	**(37)**	**(17)**	**(18)**	**(5)**	**(77)**
Net book value					
31.12.2022	**104**	**78**	**59**	**19**	**260**
31.12.2023	**67**	**92**	**50**	**32**	**241**

(In ‘000 GEL)

12. Customer accounts

Customer accounts include accounts with the following types of customers:

	31.12.2023	31.12.2022
Legal entities	985	-
Individuals	278	-
	1,263	**-**

Customer accounts by economic sector are as follows:

	31.12.2023	31.12.2022
Manufacturing sector	392	-
IT sector	368	-
Individuals	278	-
Trade and service sector	185	-
Transport and communication Sector	17	-
Other Sector	23	-
	1,263	**-**

13. Other financial liabilities

As at 31 December 2023 other financial liabilities consist of the liability to Paysera LTD amounting GEL766 thousand. The mentioned liability represents the amounts for which the bank's clients have transferred money from their accounts to the accounts of other commercial (non-resident) banks and for which settlement was made after the end of the reporting period.

Qualitative information about other financial liabilities is presented in Note 5.

14. Deferred tax liability

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. As at 31 December 2023 and 2022, the Bank's deferred tax liability mainly arises from the difference between the financial and tax bases of property and equipment and intangible assets purchased by the Bank during the year and amounts to GEL5 thousand (2022: GEL41 thousand).

On 27 December 2022, the Georgian Law on Amendments to the Tax Code of Georgia was published, which will be effective from January 1, 2023. These changes have the following impact on the company: prior to these changes, the tax legislation of Georgia stated that banking institutions, credit unions, microfinance organizations, and lending entities would be subject to the new (Estonian) profit tax regime from January 1, 2023. The amendment of 27 December 2022 determined that these entities will no longer be subject to Estonian profit tax regime, and in the future, they will be taxed according to the old method. This means that they will be taxed based on the differences between their total income and the deductible amounts determined by the Code of Georgia (Article 97, Section 12).

Additionally, a new Section 4 was added to Article 98 of the Tax Code of Georgia, which determines the rate of profit tax. This means that the taxable profit of a banking institution, credit union, microfinance organization, or lending entity will be taxed at 20 percent.

Beside the fact that taxation will occur in accordance with so-called old profit tax regime, the income and expenses determined by the Georgian Tax Cod for the financial sector were changed, in particular, Article 141 of Georgian Tax Code, which defines the moment of receipt of income by the accrual method, a new section 5 was added, which determined that from the 1st January 2023, the banking institution, credit unions and microfinance organizations must recognize interest accrued on loans as revenue in accordance with International Financial Reporting Standards (IFRS). As for the deduction of reserves on loans to customers, according to the revised Article 109 of the Georgian Tax Code, from the 1st January 2023, the aforementioned Companies will deduct reserves for expected credit losses according to the International Financial Reporting Standards (IFRS), instead of the rule established by the National Bank of Georgia.

The tax rate for banks for profits other than on state securities was 20% and 15% respectively.

(In ‘000 GEL)

15. Capital

The bank's share capital consists of shareholders' contributions in Georgian Lari. During 2023, the Bank additionally issued 450 thousand B class shares, which was paid up fully in 2023. As at 31 December 2023 and 2022 the Bank’s share capital consists of 3,700 thousand and 3,250 thousand authorized and fully paid up shares, respectively witha nominal value of GEL1 each.

Share capital consists of ordinary and preference shares. 1 share of class A provides 50 voting rights, and one share of class B - one voting right. The share structure and equity ownership are presented in the table below:

31.12.2023	Quantity of Class A (Qupreference) share	Quantity of Class B (ordinary) share	Equity ownership
Dimitry Kumsishvili	100,000	900,000	27.03%
Iravki Vekua	100,000	900,000	27.03%
Ivane Tevdorashvili	100,000	900,000	27.03%
Mindia Sabanadze	375,000	-	10.13%
Zaza Buadze	325,000	-	8.78%
	1,000,000	**2,700,000**	**100%**

31.12.2022	Quantity of Class A (preference) share	Quantity of Class B (ordinary) share	Equity ownership
Dimitry Kumsishvili	100,000	900,000	30.77%
Iravki Vekua	100,000	900,000	30.77%
Ivane Tevdorashvili	100,000	450,000	16.92%
Mindia Sabanadze	375,000	-	11.54%
Zaza Buadze	325,000	-	10.00%
	1,000,000	**2,250,000**	**100%**

According to the bank's charter, only the owners of class A shares have the right to elect or dismiss members of the Bank's supervisory board.

In 2023 the shareholders of the Bank, Mindia Sabanadze and Zaza Buadze, contributed subordinated perpetual, unclaimed loans to the capital with the amount of GEL2,050 thousand (2022: GEL4,250 thousand). Subordinated loans can be presented as follows:

	Currency	Interest rate	31.12.2023	31.12.2022
Mindia Sabanadze	USD	11.11%	3,230	2,000
Zaza Buadze	USD	11.11%	2,785	2,001
			6,015	**4,001**

Each loan is perpetual. They represent long-term commitments and there is not detemined a fixed payment date, neither is determined other circumstances when the creditor can request the bank to fulfill its obligations immediately.

The lender has no right to demand repayment of the loan. The bank is eligible to repay the loan only after 5 years. The loans are not secured.

In case of deterioration of the borrower's financial condition (and also in the case of bankruptcy or liquidation of the borrower), the creditor's requirements are satisfied last (i.e. after the satisfaction of all other creditors and depository requirements of the borrower).

Subordinated loan is subject to conversion into ordinary shares of the bank, if the bank's CET1 capital ratio falls below the greater of these two benchmarks: the minimum requirement to the CET1 capital established by the NBG for the banks and 5.125% of the CET1 capital. Loans will be converted into class B (ordinary) shares of «Paysera Bank of Georgia» at nominal value.

(In ‘000 GEL)

16. Interest income

	2023	2022
Income from deposits placed in other banks	237	50
Interest income from loans issued	-	48
	237	**98**

In 2022 the Bank received Interest income (GEL48 thousand) from loans granted to related parties before obtaining a banking license.

17. General and administrative expenses

	2023	2022
Consulting Expense*	(182)	(114)
Marketing expense	(125)	-
Representative expense	(25)	(25)
Other Expense	(120)	(10)
Deposit Insurance Agency's one-time fee expense	-	(100)
Software Expense	-	(5)
	(452)	**(402)**

(*) - Consulting Expense in 2023 consists of audit fee amounting GEL72 thousand.

18. Related party transactions

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 Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives then significant influence over the Bank; and that have joint control over the Bank;

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

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

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

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

	2023		2022	
	Key management	Other	Key management	Other
Key management personnel remuneration	(156)	-	(14)	-
Marketing expenses	-	(61)	-	-
Interest income	-	-	-	48

19. Commitments and contingencies

Requirements of the National Bank - On 17 November 2022, the National Bank of Georgia granted a banking license to JSC Paysera Georgia. Within 6 months of the entry into force of the decree, the Bank was restricted from carrying out banking activities in the real mode and defined the requirements that the Bank have to meet step by step. As at 31 December 2023 and 2022, the bank has not fully met these requirements. The National Bank of Georgia is authorized to revoke the banking license of JSC Paysera Bank of Georgia in case of non-fulfilment of the above requirements.

Legal cases - As at 31 December 2023 and 2022 the Bank has no legal actions and complaints. Management seeks both internal and external professional advices and believes that the ultimate liability, if any, arising from actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank. Related to above mentioned no provision is accrued in the financial statements.

Taxes - Georgian tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management’s interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Bank may be assessed additional taxes, penalties and interest. The Bank believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

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

20. Events after the reporting period

After the reporting period, on 12 January 2024, according to the decree of the NBG, JSC Paysera Bank Georgia was allowed to carry out all of the activities permitted for commercial banks in the real mode for a period of 1 year.

According to the joint meeting of the Supervisory Board and the Directorate on 12 March, 2024 a decision was made to issue an additional 10,000,000 B class shares within the framework of the bank's authorized capital.