JSC „Paysera Bank Georgia “

Annual Report

and Independent Auditor’s Report

for the period ending 31 December 2022

Contents:

INDEPENDENT AUDITOR'S REPORT 3

Financial reporting

Statement of financial posision 6
Statement of comprehensive income 7
Statement of cash flows 8
Statement of changes in equity 8

Explanatory Notes to Financial Statements

1. General Information 10
2. Basis of preparation 10
3. Basic accounting assessments and judgements 144
4. Financial instruments - risk management 15
5. Capital management 19
6. Cash and cash equivalents 19
7. Intangible assets 19
8. Lease 20
9. Property, Plandt and equipment 20
10. Deferred tax liability 21
11. Capital 21
12. Interest income 22
13. General and administrative expenses 22
14. Transactions with related parties 22
15. Contingencies 23
16. Events after reporting period 233
17. Review of significant accounting policies 244

INDEPENDENT AUDITOR'S REPORT

To the supervisory board and management of JSC Peysera Bank of Georgia

Opinion

We conducted an audit of the financial statements **of JSC " Peysera Bank of Georgia"** (hereinafter referred to as "the Bank"), which consists of the statement of financial position as of December 31, 2022, as well as the statement of comprehensive income for the same period, the statement of changes in equity and the statement of cash flow, as well as summaries of all significant accounting policies and other explanatory information.

In our opinion, the presented financial statements, taking into account all material aspects, fairly reflect the financial position of the Bank as of December 31, 2022, as well as the financial results of its activities and the cash flow for the reporting year ended on the given date, in accordance with International Financial Reporting Standards (IFRS).

Basis of opinion

We conducted the audit in accordance with International Auditing Standards (IAS). Our responsibilities defined by these standards are described in detail in the "Auditor's Responsibilities for the Audit of Financial Statements" section of our report. We are independent from the bank in accordance with the Code of Ethics for Professional Accountants by the International Ethics Standards Board of Accountants (IESBA) and the ethical norms that apply to our audit of financial statements in Georgia; In addition, we have fulfilled other ethical obligations stipulated by these norms and the Code of Ethics of IESBA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information for which the bank's management is responsible and which will be included in the governance statement was not received by us as of the date of the auditor's report. Our opinion on the financial statements does not include the other information mentioned above. The management report is expected to be available to us after the date of the auditor's report.

In connection with our audit of the financial statements, our responsibility is to review the other information described above and consider whether it is materially inconsistent with the financial statements or the information we obtained during the audit, or otherwise appears to be materially false. If we conclude, based on the work performed, that there is a material inaccuracy in the other information above, we must inform you of this fact.

Responsibility of those charged with governance and oversight for financial reporting

Management is responsible for the preparation and fair presentation of the accompanying financial statements in accordance with IFRS, as well as for internal control that it reasonably believes is necessary for the preparation of the 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 coicern, and, if necessary, disclose in the notes the matters related to the going concern and use the going concern principle as a basis for reporting, except when the management intends to liquidate the bank or cease operations, or when bank has no other alternatives not to do so.

Those charged with governace are responsible for overseeing the bank’s financial reporting process.

Auditor's responsibility for auditing financial statements

Our objective is to obtain reasonable assurance about whether the financial statements are free from material misstatement, either 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 there is no guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or I the aggregate, they could reasonably be expected to influence the economic decisions of the users taken on the basis of these financial statemets.

Conducting an audit in accordance with ISas, requires the auditor to exercise professional judgment and maintain professional scepticism in the audit process. In addition, we:

- 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 due to fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission of transactions, misstatements, or the override of of internal controls.
- Understand internal controls relevant to the audit in order to design appropriate audit procedures for specific circumstances, not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.
- Evaluate the reasonableness of the accounting policies used by the management, and the appropriateness of the relevant explanations.
- Conclude on the appropriateness of management's use of the going concern basis for reporting, and based on the audit evidence obtained, determine whether there are any material uncertainties related to events or conditions that would 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 relevant disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on audit evidence obtained prior to the date of the auditor's report. However, subsequent future events or conditions may cause the Bank to cease to be a going concern.
- Evaluate whether the overall presentation, structure and content of the financial statements, including explanatory notes, provide a fair presentation of the transactions and events underlying the financial statements.

Among other things, we provide information to the persons responsible for supervision about the planned scope and timing of the audit, as well as important issues raised during the audit process, including significant deficiencies identified in the internal control system.

The transaction partner of this audit, as a result of which this independent auditor's report was prepared, is:

Ivane Zhuzhunashvili (registration # SARAS-A-720718)

Representing the "BDO Audit" LLC

Tbilisi, Georgia

May 15, 2022

STATEMENT OF FINANCIAL POSITION

As of December 31, 2022

(IN THOUSAND GEL)

	Note	31.12.2022
Assets		
Cash and cash equivalents	6	6,444
Other assets		10
Intangible assets	7	202
Right of use	8	303
PP&E	9	260
Total Assets		**7,219**
Liabilities and Equity		
Liabilities		
Lease Liabilities	8	287
Deffered tax oliability	10	41
Other Liailities		26
Total Liabilities		**354**
Equity		
Ordinary Shares	11	3,250
Retained profit/(loss)		(386)
Subordinated loans	11	4,001
all Capital		**6,865**
all Obligations and Capital		**7,219**

The financial statements on behalf of the management on May 15, 2023 have been approved for issue by the following persons:

General Director

Dimitry Kumsishvili ______________________________

Chief accountant

Keto Khukhia ______________________________

Notes on pages 10 - 30 are an integral part of these financial statements.

STATEMENT OF COMPREHESIVE INCOME

For the reporting year ended on December 31, 2022

(IN THOUSAND GEL)

	Note	2022 (from March 1)
Interest income	12	98
Interest expense		(4)
Net Interest income		**94**
Other income		56
Foreign exchange loss		(13)
Non-interest income		**43**
Geeral and administrative expenses	13	(402)
Foreign currecy exchange profit/(loss), net		(329)
Operating loss		**(594)**
profit tax expense	10	(41)
Total comprehensive profit /(loss)		**(635)**

Notes on pages 10 - 30 are an integral part of these financial statements.

JSC PEYSERA BANK GEORGIA

STATEMENT OF CASH FLOWS

FOR THE REPORTING YEAR ENDED ON DECEMBER 31, 2022

(IN THOUSAND GEL)

	Note	2022
Cash flows from operating activities		
Employee expenses		(67)
Paid administrative and other operating expenses		(235)
Cash flows from operating activities before changes in operating assets and liabilities		**(302)**
Net changes in operating assetsivities		
Interest paid		(4)
Loans issued		(5,420)
Borrowings		5,198
Net cash flows used in operating activities		**(528)**
Cash flows from investment activities		
Purchase of fixed and intangible assets		(465)
Net cash flows received from investment activities/(used in investment activities).		**(465)**
Cash flows from financial activities		
Interest received	12	98
Payment of the principal amount of the lease obligation		(33)
Issued Subordinated loan	11	4,250
Issue of share capital	11	3,250
Net cash flows from financial activities		**7,565**
Impact of exchange rate changes on cash and cash equivalents		(128)
Net (decrease)/increase in cash and cash equivalents		**6,444**
Cash and cash equivalents at the beginning of the year	6	-
Cash and cash equivalents at the end of the year	6	**6,444**

Notes on pages 10 - 30 are an integral part of these financial statements.

JSC PEYSERA BANK GEORGIA

STATEMENT OF CHANGES IN EQUITY

For the reporting year ended on December 31, 2022

(IN THOUSAND GEL)

	Shareholder Capital	**Subordinated loans**	**Accumulated loss**	**Total**
31.12.2021	-	-	-	-
Shareholder contribution to capital	3,250	-	-	**3,250**
Total loss for the year	-	-	(635)	**(635)**
Subordinated loand	-	4,250	-	**4,250**
Revaluation of perpetual subordinated loans	-	(249)	249	-
31.12.2022	**3.250**	**4,001**	**(386)**	**6,865**

Notes on pages 10 - 30 are an integral part of these financial statements.

1. General information

JSC Peysera Bank Georgia (hereinafter "the Bank") was established on March 1, 2022. Initially, it was registered in the register as a limited liability company - Peysera Georgia LLC (hereinafter "the 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. Currently, the joint-stock company " Peysera Bank Georgia" operates in accordance with the legislation of Georgia and is registered under the identification number: 402204841;

The bank operates under a banking activity license issued by the National Bank of Georgia ("NBG").In 2022, the National Bank of Georgia issued a banking license to JSC Peysera Georgia, taking into account the principles of digital bank licensing, however, the authority to carry out banking activities in thr real environment was limited for 4 months, which was later extended by another two months, as explained in the note 16. The granting of the authority to carry out banking activities in the real mode, as a result of fulfilling the licensing requirements, based on the consent issued by the National Bank of Georgia, will be done gradually." JSC " Peysera Georgia" is working in the test mode as of December 31, 2022 .

The legal address of the bank is: Georgia, Tbilisi, Akaki Tsereteli Avenue N4/2;

As of December 31, 2022, the bank's shareholders are:

	Class A (management) shares	Class B (ordinary) shares	Equity Share
Dimitri Kumsishvili	100,000	900,000	30.77%
Irakli Vekua	100,000	900,000	30.77%
Ivan 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**	

The average annual number of bank employees (contractual) according to categories is presented as follows:

	2022
top management	3
middle management	1
other employees	10

In 2022, among other employees the bank had one temporarily employed employee.

2. Basis of preparation

The financial statements are prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Committee (IASC) and by the International Accounting Standards and Interpretations (collectively IFRSs).

Bank prepares financial statemens in georgian Lari (mounts displaid are in thousands). Financial statements are prepared on a historical cost basis. Bank statement period includes calendar year from January 1 to December 31. The bank's comprehensive income statement covers post-establishment operations from March 1, 2022 to December 31, 2022.

Preparation of financial statements according to the IFRS requires the bank's management to make certain estimates, which will affect the accounting value of assets and liabilities as of the date of preparation of financial statements, as well as affect the amount of income and expenses during the reporting period. Actual results may differ from the current estimates. Estimates will be reviewed periodically. Adjustments resulting in changes in accounting estimates are included in the financial results of the period in which these changes were made. Explanations of key accounting estimates are provided in Note 3.

2. Basis of preparation (continued)

Significant accounting policies used in the preparation of financial statements are given in Note 17.

A going concern

The financial statements are prepared on the going concern basis - that is, on the assumption that the bank will continue to operate for the foreseeable future. Management believes that going concern is appropriate for the Bank.

In applying the going concern principle, management has considered the Bank's operations, objectives and strategy, key risks and uncertainties to achieve and fulfill its objectives.

Management has a reasonable expectation that the Bank, as a whole, has sufficient resources to continue as a going concern for a period of 12 months after the financial statements are issued. Management is not aware of any material uncertainties that could materially threaten the Bank's ability to continue as a going concern for the foreseeable future.

Change in accounting policy

a) New standards, interpretations and amendments effective after January 1, 2022:

Standards and amendments effective since January 1, 2022

Annual improvement of IFRS standards: 2018-2020 cycle. In May 2020, the IASB issued minor amendments to the following standards: IAS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and IFRS 16 Illustrative Examples of Leases.

Conceptual approach (Amendment - IFRS 3). In May 2020, the IASB published an amendment to IFRS 3 that updates the reference to the conceptual basis of financial reporting without significantly changing the requirements of the standard for business combinations. The amendment concerns an exception to the basic approach of recognizing liabilities and contingent liabilities in business combinations and falls within the scope of IAS 37 Accruals, Contingent Liabilities and Contingent Assets and IFRIC 12 Concessional Arrangements for Services.

IAS 16 Property, plant and equipment (amendment - income before the intended use of the asset). In May 2020, the IASB issued an amendment to IAS 16 that prohibits an entity from deducting from the value of property, plant and equipment the revenue from the sale of goods produced by the same asset while the entity prepares the asset for its intended use. Instead of making a deduction against the value of such an asset, the enterprise should recognize the income and expenses related to such sales in the profit and loss.

According to the bank's management, the above mentioned changes do not have a significant impact on the company's financial statements.

b) New standards, interpretations and amendments issued but not yet effective:

Standards and amendments effective as of January 1, 2023

IFRS 17 Insurance Contracts. IFRS 17 introduces an internationally consistent approach to insurance contract accounting. Prior to IFRS 17, there was considerable variation around the world in the accounting and presentation of insurance contracts, with IFRS 4 allowing multiple (non-IFRS) accounting approaches. The entry into force of IFRS 17 will lead to the significant changes for many insurers , which will involve changes to existing systems and processes.

2. Basis of preparation (continued)

Under the new standard, an insurance contract includes elements of a financial instrument and a service contract, with a large portion of the cash flows generated being inherently variable over time. As a result, the standard establishes the following approaches:

- recognition of the present value of future cash flows in profit and loss during the period in which the service is delivered under the contract;
- presentation of insurance service results (including insurance revenue) separately from insurance financial income or expenses;
- The choice of the accounting policy regarding the presentation of insurance financial income or expense entirely in the profit and loss or partly in the comprehensive income for an individual portfolio.

After the issuance of IFRS 17, amendments were made to the standard and the effective date was postponed.

Presentation of accounting policies (Amendment - IAS 1 and IFRS Practical Statements 2) – In February 2021, the IASB issued an amendment to IAS 1 that replaces the requirements for presenting accounting policies with "significant accounting policy information" with "material accounting policy information". This amendment provides guidance on when information about accounting policies can be considered material. This amendment is effective for financial statements whose reporting period begins on January 1, 2023. Early transition is allowed, since IFRS Practice Statement 2 is not a binding guidance, no mandatory effective date has been determined for the amendment to IFRS Practice Statement 2.

Deferred tax related to assets and liabilities arising from a single transaction (amendment to IAS 12). In May 2021, the IASB issued an amendment to IAS 12 that clarifies whether the initial recognition exception applies to certain transactions that result in the simultaneous recognition of both an asset and a liability (eg leases under IFRS 16). As a result of the amendment, IAS 12.5 added a criterion regarding the initial recognition exemption, according to which the exemption does not apply to the initial recognition of assets or liabilities that give rise to taxable and deductible temporary differences of equal amount.

According to the bank's management, the mentioned changes will not have a significant impact on the company's financial statements.

c) Standards and Amendments Effective as of January 1, 2024

Lease liability on sale under leaseback (amendment to IFRS 16). In June 2020, the IFRS Interpretations Board issued an agenda item on leaseback sales with variable payments. The mentioned issue was referred to the IASB in order to consider some aspects in the standard. In September 2022, the IASB issued a final amendment.

The amendment requires the seller-lessee to determine “lease payments” or “ revised lease payments” so as not to recognize any amount of gain or loss related to the right of use retained by the seller-lessee.

IAS 1 Presentation of Financial Statements (Amendment - Classification of liabilities as current or non-current, covenants) In January 2020, the IASB issued an amendment to IAS 1 regarding the classification of liabilities as short-term or non-current. And in October 2022, a further amendment was made in relation to covenanted long-term liabilities.

Under the amendment, an entity is required to have a substantive right to defer repayment of the liability for at least twelve months beyond the reporting period, and that right must exist at the end of the reporting period. The classification of the liability is not affected by the probability that the entity will exercise the right to defer for at least 12 months after the reporting period.

2. Basis of preparation (continued)

If the entity's right to defer is subject to the satisfaction of specific conditions, such conditions affect whether the right exists at the end of the reporting period, if the entity is required to meet the conditions before or at the end of the reporting period, and not if the entity is required to meet the conditions after the reporting period. The said amendment also clarifies the meaning of "settlement" for the purpose of classifying a liability as short-term or long-term.

As a result of the COVID-19 pandemic, the effective date of the amendment has been postponed by one year and is effective for financial statements with reporting periods beginning on or after January 1, 2024.

According to the bank's management, the mentioned changes will not have a significant impact on the company's financial statements.

other

The bank's management does not expect that any other standards issued by IASC, which are not yet effective, will have a material impact on the bank's financial statements .

3. Main accounting estimates and judgements

The Bank is developing certain accounting estimates and decisions for future periods. Assessments and decisions are constantly reviewed based on experience and other factors that take into account future events. Experience gained in future periods may differ from these estimates and assumptions. Below are the estimates and assumptions that carry the risk of material changes in the carrying amounts of assets and liabilities in the next financial year.

Taxation - Tax legislation in Georgia changes frequently and allows for different interpretations. Management's interpretation of legislation and changes related to the bank's operations and activities may be questioned by relevant authorities. Additional fees, fines or surcharges may apply during inspection. Fiscal periods are subject to tax audits by authorized bodies within three years, including the audit year. Management believes that its interpretation of the relevant legislation as of December 31, 2022 is correct and that the Bank's tax assessment will remain unchanged.

Useful lives of property, plant and equipment - As mentioned above, the Company reviews the useful lives of property, plant and equipment at the end of each annual reporting period. In determining the useful life of an asset, management considers expected use, expected technical obsolescence , physical wear and tear, and the environment in which the asset is used. Any changes to the listed conditions or grading system may result in future depreciation rate adjustments.

Determining lease terms for those contracts where the company is the lessee - at the start date of the lease term, the bank assesses whether it is reasonably certain that it will exercise the option to extend the lease, or purchase the leased asset, or not exercise the option to terminate the lease early. The Bank shall take into account all relevant facts and circumstances that create an economic incentive for the lessee to exercise or not to exercise this option, including expected changes in facts and circumstances between the date of commencement of the lease term and the date of exercise of this option.

Factors to be considered in this regard include, among others:

a) contractual terms related to optional periods, compared to market rates, such as:

- (i) the amount of lease payments in any elective period;
- (ii) the amount of variable lease payments or other contingent payments;
- (iii) The terms of any option rights exercisable after the initial option periods.

(b) significant improvements to the leased property that have been made (or are expected to be made) during the term of the agreement and are expected to bring significant economic benefits to the lessee when the option to extend or terminate the lease or to purchase the leased asset can be exercised;

c) costs related to early lease termination, such as negotiation costs, asset relocation costs, costs related to the identification of another leased asset suitable for the lessee's needs, costs of integrating a new asset into the lessee's operations, or penalties for early lease termination, and other similar costs, including, which are related to the return of the leased asset to the condition stipulated by the contract, or the leased asset to the place stipulated by the contract;

d) the importance of the leased asset for the lessee's activities, including consideration of the following aspects: whether the leased asset is a specialized asset or not, the location of the leased asset and the availability of suitable alternative options; and

e) conditionality related to the choice of use of the right (ie , when the use of the right choice is possible only if one or more conditions are met) and the probability of materialization of these conditions .

3. Main Accounting estimates and judgements (continued)

See Note 8 for details of lease terms for those agreements where the Company is the lessee.

e) determination of the marginal interest rate for the contracts where the bank represents the lessee

Management uses judgment to determine the marginal lending rate. Using observable data, the basic rate is determined, which is adjusted by the specific factors characteristic of the tenant and the characteristics of the security (lease object). The Company applied the same discount rate to a portfolio of lease agreements with more or less similar characteristics;

For details on the marginal lending rate for those agreements where the bank is the lessee, see Note 8.

4. Financial instruments - risks Management

Certain risks are characteristic of the bank's activities and their management is carried out through a continuous process of detection, evaluation and control, through risk limits and other control mechanisms. Risk management is critical to the bank's profitability, and each employee of the bank is responsible for exposing and detecting risks within the scope of their activities. The main risks characteristic of the bank's activities are credit, liquidity, market, operational risks and other non-financial risks. The risk management system introduced by the bank sets the acceptable level of each type of risk for each direction of activity and ensures its protection.

The board of directors has overall responsibility for overseeing the risk management framework, overseeing key risk management and reviewing its risk management policies and procedures, as well as approving materially large assignments.

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

- Credit risk manages Credit risk Committee ;
- Liquidity risk is managed by the bank's financial department, treasury unit;
- Market risk is managed by the bank's financial department, treasury unit;
- Operational risk is managed by the Risk Management Department.

Credit risk

The bank is exposed to credit risk, which implies that the customer or the counterparty cannot fulfill its obligations - payment of unpaid amounts. The bank's credit risk arises as a result of its lending operations and other transactions with parties concerning financial assets. The maximum amount of credit risk of balance sheet items is their balance sheet values.

The bank is guided by the "Expected Credit Loss" (ECL) model. This requires consideration of how economic factors will affect the ECL model, determined on a weighted probability basis. According to IFRS 9, the loss allowance is determined as follows: a) 12-month expected credit loss - such expected credit loss resulting from default events on financial instruments that can occur during the next 12 months. b) Lifetime expected credit loss - such expected credit loss resulting from all possible default events that can occur during the lifetime of the financial instrument.

4. Financial instruments - risk management (continued)

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 credit risk has not significantly increased, the 12-month expected credit loss will apply. 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 applies to the trade and other receivables.

As of 31.12.2022, the company has no recorded expected credit loss in the financial statements, because in the opinion of the management, the company's financial assets - money and money equivalents at the end of the reporting period represent "neither impaired nor overdue assets" and the expected credit loss on these assets is equal to 0.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will change as a result of changes in market variables such as interest rates and foreign exchange rates. Apart from the assets in foreign currency (cash in banks), the bank has no significant market risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will change due to changes in market interest rates. As of December 31, 2022, the Bank is not materially exposed to interest rate risk as it has no balances of financial assets and liabilities bearing variable interest rates.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will change due to exchange rate fluctuations.

The following tables present the currencies carrying the highest risk for the bank, in which the bank's financial assets and liabilities are mainly expressed as of December 31. In the process of analysis, the effect of exchange rate changes in foreign currency against the GEL is estimated, when all other terms of the statement of comprehensive income are unchanged (due to the fair value of financial assets and financial liabilities sensitive to the exchange rate).

	Lari	USD	Euro	31.12.2022
Financial assets				
money and money equivalents	2,419	4,013	12	**6,444**
	2,419	**4,013**	**12**	**6,444**
Financial Obligations				
lease obligation	-	287	-	**287**
other Financial Obligations	26	-	-	**26**
	26	**287**	**-**	**313**
open currency position	**2,393**	**3,726**	12	

4. Financial instruments - risk management (continued)

Currency risk sensitivity analysis

The table below represents the bank's sensitivity to 20% increase and decrease of respective foreign currencies in relation to GEL. 20% is the sensitivity rate used by the bank's management for internal control of foreign exchange risk and represents the assessment of the exchange rate difference by the bank's management. The sensitivity analysis covers only the unhedged monetary items denominated in foreign currency and adjusts their revaluation for the expected change within the reasonableness of the exchange rates at the end of the period.

The impact on net profit according to the value of assets is presented as follows:

31.12.2022	**GEL / USD**		**GEL / Euro**	
	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. Since the bank did not issue loans in 2022 and the raised capital was fully placed on correspondent accounts, as of December 31, 2022, the bank has no liquidity risk.

Mandatory requirements regarding liquidity

The Liquidity Coverage Ratio Regulation (#70/04 Regulation) was approved and published by the NBG on 15 May 2017 and came into effect on 1 September 2017. The liquidity coverage ratio is calculated according to Basel III principles, although higher ratios are also allowed.

NBG obligates all banks to maintain daily liquidity coverage ratio of atleast 75.0% in GEL, 100.0% in foreign currency and minimum 100.0% liquidity coverage ratio in total.

As of 31 December 2022, the bank meets the above requirements.

Analysis of the remaining contractual terms

The following tables summarize the maturity analysis of the bank's financial obligations as of December 31, 2022, according to the non-discounted repayment obligations provided for in the agreement.

	Maturing within a year	**Maturity above one year**	**31.12.2022**
Obligations			
lease obligation	110	202	**312**
other Financial Obligations	26	-	**26**
all financial with obligations connected potential future Payments	**136**	**202**	**338**

4. Financial instruments - risk management (continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls are not implemented, operational risks may result in reputational damage, legal or regulatory action, or financial loss. 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 performed by the Risk Department and its compliance with existing challenges is monitored by the Risk Committee.

IFRS 7 Fair Value Measurement Hierarchy

IFRS 7 requires explanatory notes for financial assets and liabilities measured at fair value about the assumptions used in determining the fair value. The fair value hierarchy includes the following levels:

1. Quoted price of identical assets and liabilities (unadjusted) in an active market (level 1);
2. Other information different from the quoted price included in the first level, which is directly or indirectly observable (level 2); and
3. Information that is not observable in an active market (Level 3).

The fair value hierarchy is determined according to the lowest level that has a material impact on the determination of fair value. Financial assets and liabilities are classified in one of the levels. All financial instruments of the bank are recorded at amortized cost.

For the financial assets and liabilities with a short-term maturity (less than 3 months), it is assumed that their carrying amount is equal to their fair value.

Cash and cash equivalents, lease liabilities and other financial liabilities are recorded at amortized cost, which approximates their current fair value. The fair value of cash and cash equivalents is determined by Level 1, and the fair values of other financial assets and liabilities are determined by Level 3.

5. Capital management

The main objectives of the bank's capital management are:

- Ensuring that the bank always has sufficient amount and quality of capital so that even in the worst case it can cover the (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 going concern principle.

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

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

As of December 31, 2022, the Bank maintained capital adequacy requirements set by the SEC. Details are presented in the table:

	Capital ratios	Capital requirements
Common Equity Tier 1 ratio (CET 1)	**86.80%**	**7.0%**
Tier 1 ratio (Tier 1)	**216.46%**	**8.5%**
Total supervisory capital	**216.46%**	**10.5%**

6. Cash and cash equivalents

‘	31.12.2022
National currency in the resident bank	2,419
Foreign currency in the resident bank	4,025
	6,444

Qualitative information on cash and cash equivalents is provided in Note 4.

As of December 31, 2022 and 2021, according to Fitch Ratings, the Government of Georgia's long-term foreign and local currency issuer default ratings (IDRs) in foreign and local currencies are set at 'BB+' with positive outlooks (2021: 'BB'). (The issuer ratings on Georgia's senior unsecured bonds in foreign and local currencies are also affirmed at 'BB+' with positive outlook (2021: 'BB'). The country's upper bound is affirmed at 'BBB-' (2021: 'BBB-') and short-term foreign currency issuer default Rating with 'B' (2021: 'B').

As of 31.12.2022 , the bank has placed funds in banks with "BB-" credit rating. Management assumes that expected credit losses are immaterial as of the reporting dates.

7. Intangible assets

Intangible assets of the bank consist of a banking license (cost: 200 thousand GEL) and software (cost: 2,216 GEL), in total, amortization accrued on intangible assets during the period amounts to: 369 GEL.

8. Lease

The bank has leased space for the administrative office. Lease payments consist of a fixed part and are presented in dollars. The marginal lending rate of the lease agreement is 8%.

The movement of the right to use the asset is presented as follows:

The right to use the asset	**2022**
Recognition	321
Depreciation	(18)
December 31	**303**

The movement of the right to use the asset is presented as follows:

Lease Obligations	**2022**
Recognition	321
Interest expense	2
Foreign currency revaluation difference	(8)
Lease payment	(33)
VAT payment	5
December 31	**287**

The fair value of the lease liabilities does not differ from their book value. Qualitative information about lease liabilities is presented in the Note 4.

9. Property, Plant and Equipment

	Leased property amenities	**Furniture and technical equipment**	**Computer equipment**	**other**	**Total**
Historical value					
recognition	104	79	61	19	**263**
31.12.2022	**104**	**79**	**61**	**19**	**263**
Accumulated depreciation					
depreciation	-	(1)	(2)	-	**(3)**
31.12.2022	-	**(1)**	**(2)**	-	**(3)**
Ending value					
31.12.2022	**104**	**78**	**59**	**19**	**260**

10. Deferred tax liability

Temporary differences between the carrying amounts of assets and liabilities for financial accounting purposes and the amounts used for tax purposes give rise to a net deferred tax liability. As of December 31, 2022, the bank's deferred tax liability mainly arises from the difference in the financial and tax bases of fixed assets and intangible assets acquired by the bank during the year and amounts to 41 thousand Georgian Lari.

On December 27, 2022, the Law of Georgia on Amendments to the Tax Code of Georgia (TCG) was published, which is effective from January 1, 2023. The mentioned changes have the following impact on the bank: before the mentioned changes, the tax legislation of Georgia determined that banking institutions, credit unions, microfinance organizations and lending entities would be taxed under the new (Estonian) profit tax regime from January 1, 2023. The change determined that the time schedule will no longer be established and in the future these entities will be taxed again according to the old regime, namely according to the difference between the total income and the amounts of deductions provided by theTCG (Article 97, Section 12).

Also, a new section 4 was added to Article 98 of the Civil Code, which determines the rate of profit tax, according to which the taxable profit of a banking institution, credit union, microfinance organization, lending entity will be taxed at 20 percent .

Although taxation will be carried out on the so-called profits basis, according to the old regime, the income and expenses determined by the Tax Code of Georgia for the financial sector were changed, in particular Article 141 of the Tax Code, which defines the income recognition based on accrual accounting, a new part 5 was added, which determined that from January 1, 2023, the banking institutions , 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 the loans issued, according to the revised Article 109 of the Tax Code of Georgia, from January 1, 2023, the aforementioned entities will deduct reserves for possible loan losses from the joint income according to the International Financial Reporting Standards (IFRS), instead of the rules established by the National Bank of Georgia.

In 2022 the tax rate on profits was 15%, except for profits from government securities.

11. Capital

As of December 31, 2022, the Bank's share capital consisted of 3,250,000 authorized fully paid shares with a par value of 1 Lari each. The bank's share capital consists of shareholders' contributions in Georgian Lari.

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

	Class A (management) shares	**Class B (ordinary) shares**	**Equity Share**
Dimitri Kumsishvili	100,000	900,000	30.77%
Irakli 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**	

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

In 2022, the founders of the company, Mindia Sabanadze and Zaza Buadze, made an additional contribution to the capital in the amount of 2,125 thousand GEL equivalent each.

12. interest income

	2022
Interest income from loans	48
Interest income from deposits	50
	98

The bank received interest income from loans (48 thousand GEL) from loans granted to related parties before obtaining a banking license.

13. General and administrative expenses

	2022
Personnel expenses	(123)
Consulting and training expenses	(113)
Deposit insuranse one-time cost	(100)
Depreciation&Amortization expense	(25)
Busines trip expenses	(25)
Software expense	(5)
other	(11)
	(402)

14. Related Party Transactions

Related parties and transactions with related parties according to IAS 24, "Explanatory Notes to Related Parties" are when:

a) A party directly, or through one or more intermediate links, indirectly: controls an enterprise, is controlled by an enterprise, or is under common control (this includes parent and subsidiary enterprises); is the owner of such a share in the enterprise that he can exert a significant influence on it; and jointly controls the enterprise;

b) the party is a member of the top management of the enterprise or its parent enterprise;

c) the party is a member of the family of persons provided for in clauses (a) and (b);

(d) a party is an enterprise controlled, jointly controlled, or significantly influenced by any of the persons defined in clauses (b) and (d), or in which significant voting rights are exercised directly or indirectly by such persons.

When considering each possible connection with related parties, the focus should be on the economic content of the transaction, not on its legal side. Details of the essential relationship between the Bank and its related parties are given below.

14. Transactions with related parties (continued)

The results of transactions with related parties reflected in the statement of comprehensive income is presented as follows:

2022	Companies under common control	top management
Interest income	48	-
The benefits of top management	-	(14)

15. Contingencies

Requirements of the National Bank - On November 17, 2022, the National Bank of Georgia issued a banking license to JSC Paysera Georgia. Within 6 months of the entry into force of the decree, NBG restricted Paysera from conducting banking activities in a real environment and defined the requirements that bank must meet step by step. As of December 31, 2022, the bank has not fully met these requirements and is still operating in a test mode. The National Bank of Georgia is authorized to revoke the banking activity license of JSC Paysera Bank of Georgia in case of non-fulfillment of the above-mentioned requirements.

Litigation– in 2022 Bank has no litigation. Management is consulting with internal and external professionals and believes that no material loss will occur in connection with legal matters, therefore no provision has been made for litigation.

Taxes - Georgian tax legislation may be subject to various interpretations and changes. In addition, management's tax interpretations may differ from tax authorities' interpretations. The bank's operations may be appealed by the tax authorities and the bank may be charged additional taxes, surcharges, and interest. The management of the bank believes that all taxes have been paid, and therefore, no charges have been presented in the financial statements. Tax authorities can review bank operations for 3 years.

Operating Environment - Positioning in the Georgian market creates additional economic, political, social, legal and legislative risks compared to a more developed market. Laws and regulations, tax and regulatory frameworks influence the rapid development of business in Georgia. The future economic course of Georgia is influenced by the fiscal and monetary policies adopted by the government, along with the legislative, regulatory and political environment.

Management reporting - according to the Law on Accounting, Reporting and Auditing (Clause 7), the bank has an obligation to prepare and submit to the state regulatory body a management report, together with an independent auditor's report, no later than October 1 of the year following the reporting period. As of the date of publication of these financial statements, the Bank has not fulfilled the said obligation.

16. Events after the reporting date

On November 17, 2022, the National Bank of Georgia issued a banking activity license to JSC Paysera Bank Georgia. For 4 months after the entry into force of the decree, the bank was limited in conducting banking activities in the real environment. After the reporting period, on February 17, 2023, according to the written decree of the National Bank of Georgia, the testing period for the JSC Paysera Bank Georgia was extended by two months.

17. Review of significant accounting policies

a) Valuation and presentation currency

The items reflected in the financial statements are presented in the currency of the country where the bank operates (operational currency). Thus, this report is presented in GEL, which is the bank's functional and presentation currency.

b) Foreign currency conversion

Monetary assets and liabilities denominated in foreign currency are recalculated according to the official exchange rate established by the National Bank of Georgia at the end of the year. Exchange rate differences arising during conversion are reflected in the profit and loss accounts. Results expressed in foreign currency are recorded in accordance with the exchange rate prevailing on the day of the operation. Non-monetary items in foreign currency are valued at the exchange rate of the day of operation.

Exchange rate differences arising during the conversion of monetary items are reflected in the profit and loss item "Gain from exchange rate differences, net ".

The last exchange rate used for conversion of foreign currency balances was as follows:

	Official exchange rate of the National Bank of Georgia	
	USD	**Euro**
Exchange rate for December 31, 2022	2.7020	2.8844
Exchange rate for December 31, 2021	3.0976	3.5040

Financial instruments

Initial recognition

Financial assets at initial recognition are measured at fair value plus transaction costs directly related to the acquisition or issuance of a financial asset.

Financial assets - classification and further evaluation

The bank classifies financial assets in accordance with the business model, with one of the following three categories:

- A financial asset measured at amortized cost;
- A financial asset measured at fair value through profit or loss(FVTPL);
- A financial asset measured at fair value through other comprehensive income(FVTOCI).

The classification of financial instruments depends on their contractual terms and the business model of managing these instruments. The bank has classified all assets under the following category: "Financial assets valued at amortized cost".

The bank evaluates claims against credit institutions, loans to customers and other financial assets at amortized cost only if both conditions are met:

- The financial asset is managed by such a business model, the purpose of which is to own financial assets to receive contractual cash flows;
- The contractual terms of the financial asset generate cash flows on specific dates that represent solely payments of principal and accrued interest on the remaining principal amount(SPPI).

depreciation

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

17. Review of significant accounting policies (continued)

Financial assets – write-off

Financial assets are written off in whole or in part when the bank has exhausted all practicable recovery options and concludes that there is no longer a reasonable expectation of recovery. De-recognition constitutes cessation of recognition.

Derecognition of financial assets

A bank derecognizes financial assets when (a) the assets are redeemed or the rights to the related cash flows expire, or (b) the bank transfers the right to receive cash flows from the financial assets to another party or enters into a transaction that (i) also transfers all risks and ownership of the assets indemnification or (ii) substantially all risks and rewards of ownership are neither transferred nor retained, but control is not retained.

Netting of financial assets and liabilities

The bank offsets financial assets and liabilities when the netting is not legally limited and the bank plans to settle on a net basis or plans to receive the financial asset and repay the liability uniformly .

Financial liabilities

The bank has classified all financial liabilities in the "other financial liabilities" category.

Financial liabilities at initial recognition are measured at fair value plus those transaction costs related directly to the issuance of financial liabilities. Similar interest-bearing liabilities are subsequently recorded at amortized cost using the effective interest rate method, which ensures that interest expense is charged to the carrying amount of the financial liability at a constant rate. Interest expense for any financial liability includes the initial transaction costs and any additional payments to redeem the liability.

Financial liabilities - derecognition

Bank derecognizes financial liability when its contractual obligations are satisfied, canceled, or expired. The bank also derecognizes a financial liability when its terms are modified, and the cash flows from the modified financial liability differ substantially. In this case, the financial liability based on the new modified terms is recognized at fair value. The difference between the carrying amount of the discontinued financial liability and the new modified financial liability is recognized in the profit or loss. The amount paid includes any non-financial assets transferred and liabilities assumed, including the new modified financial liability.

If the modification of the financial liability is not accounted for as derecognition, then the amortized cost of the liability is calculated by discounting the modified cash flows at the original effective interest rate, and the resulting gain or loss is recognized in profit or loss. Any fee expense incurred is recognized as an adjustment to the carrying amount of the liability and is amortized by recalculating the instrument's effective interest rate over the remaining term of the modified financial liability.

Cash and cash equivalents

Cash and cash equivalents include cash, claims from the National Bank of Georgia, excluding mandatory reserve requirements, and claims from financial institutions with maturities of 90 days or less, that are subject to immaterial risk of changes in their fair value and are used by the Bank to manage its short-term liabilities. Cash and cash equivalents are presented at amortized cost in the statement of financial position.

17. Review of significant accounting policies (continued)

Taxation

Current profit tax is calculated in accordance with the legislation of Georgia and represents the sum of current and deferred tax expenses. Calculation of deferred assets and liabilities in relation to current differences is done using the liability accounting method.

Deferred income taxes are provided for all temporary differences that arise between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, unless the deferred income tax arises from the initial recognition of goodwill or assets and liabilities in a transaction that is not a business combination and as of the transaction date, there will be no impact on accounting profit or taxable profit or loss.

A deferred tax asset is recognized only when it is expected that taxable profit will be available against which deductible temporary differences can be netted. Deferred tax assets and liabilities are recorded at the tax rates that are expected to be applied over the period the asset is realized and the liability is settled based on the rates in effect or substantially in effect at the reporting date.

Georgia also has various operating taxes that affect the bank's activities. These tax charges are recorded in general and administrative expenses.

Property, Plant and Equipment

Recognition and evaluation

Property, plant and equipment, other than land and buildings, are recognised at cost less accumulated depreciation and any accumulated impairment losses. Cost includes costs directly attributable to the acquisition of the asset or to bringing it into working condition for its intended use. Acquired long-term software that is a functionally integral part of the equipment is capitalized as part of the cost of fixed assets. The same software is recognized as an expense in the profit and loss for the short term. The carrying amount of the equipment is tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable .

The calculation of depreciation is carried out in such a way that the difference between the cost price and the residual value of the asset is written off during its useful life:

Name	Useful service life
Amenities of the leased property	3
Computer equipment	4
Furniture and technical equipment	4-6
other	6

At the end of each accounting period, the useful life is reviewed and any changes are recorded prospectively. The result of the write-off is recognized in profit or loss.

Intangible assets

An intangible asset is an identifiable non-monetary asset without a physical form. Intangible assets as of December 31, 2022 mainly include the banking license. The banking license has an indefinite useful life and is not amortized. Other intangible assets with a limited useful life are amortized using the straight-line method over their useful lives.

Impairment of non-financial assets

The carrying amount of the Bank's non-financial assets is reviewed at each reporting date (except for deferred tax assets) to determine whether there is any indication of impairment. In the presence of similar signs, the recoverable amount of the asset is estimated.

17. Review of significant accounting policies (continued)

For the purpose of determining the impairment, assets that cannot be tested individually are grouped into the smallest groups of assets that generate cash flows from long-term useful lives that are independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value (less selling costs). In value-in-use measurement, estimated future cash flows are discounted to their present value (using a pre-tax discount rate), which reflects the market's current assessment of the time value of money and the risks inherent in those assets or cash-generating units.

An impairment loss is recognized if the carrying amount of the asset and the related cash-generating unit exceeds its estimated recoverable amount.

An impairment loss is recognized in profit or loss. Impairment losses (if any) recognized in respect of cash-generating units are allocated first to, and reduced by, the carrying amount of the goodwill allocated to any cash-generating unit, and then to, and reduced by, the carrying amount of the cash-generating unit's other assets.

Perpetual subordinated loan

Because of the indefinite term and the ability to cancel without accruing interest payments, 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 expressed in dollars 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.

Share capital

Common stock with dividends payable is classified as equity. Additional expenses directly related to the issue of new shares are shown in equity as a deduction from income, net of tax.

Recognition of income and expense

The Bank calculates interest income on debt financial assets, which are measured at amortized cost, using the effective interest rate on the total book value of financial assets (except for credit impaired assets). The effective interest rate is the rate that accurately discounts the expected future cash flows paid and received over the expected term of the financial instrument or, whenever possible, a shorter period, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all the contractual terms of the financial instrument (for example, the possibility of prepayment) and includes any commissions and additional costs that are directly attributable to the instrument and are an integral part of the effective interest rate, excluding future credit losses. The balance sheet value of a financial asset or financial liability is adjusted if the bank revises the estimate of the estimated amounts to be paid or received by it. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest income or expense.

When a financial asset is impaired, the Bank calculates interest income on the net amortized cost of the financial asset using the effective interest rate. If the quality of the financial asset has improved and is no longer impaired, then the bank reverts to calculating interest income on a gross basis.

In the case of purchased or issued credit impaired(POCI) financial assets, the Bank calculates interest income by obtaining an effective interest rate adjusted for credit risk and applying that rate to the amortized cost of the asset. The credit risk- adjusted effective interest rate is the interest rate that, on initial recognition, discounts the expected future cash flows (including credit losses) to the amortized cost of the purchased or issued credit impaired(POCI) financial assets.

17. Review of significant accounting policies (continued)

Contingent assets and liabilities, accruals

Contingent liabilities are not reflected in the financial statements, except when it is expected that economic benefits will flow from the bank and it is possible to estimate these liability reliably.

Contingent assets are not reflected in the financial statements, but information about financial assets related to which economic benefits are expected to flow to the bank - are reflected in the explanatory notes. That is, if the bank can with certainty expect that the economic benefits will flow to the bank, then the related assets and income are reflected in the financial statements for the period in which the change in value took place.

Accrual is a liability associated with quantitative and temporal uncertainties. An accrual in the bank is recognized when the bank has a current obligation (legal or constructive), which will occur as a result of a past event, and it is likely that to cover the obligation, it will be necessary to withdraw resources invested in economic benefits; And it is possible to reliably estimate the amount of the duty.

Lease

Bank as a tenant

Lease identification

At the inception of the agreement, the bank must assess whether the entire agreement is a lease or whether it contains a lease. A contract is a lease, or contains a lease, if the contract transfers the right to control an identified asset for a period of time in return for payment. To determine whether this or that contract gives the customer the right to control the use of an identified asset for a certain period of time, the bank must assess whether, during the period of use, the customer has both of the following rights :

- The right to receive practically the entire benefit from the asset identified in the contract; and
    - The right to determine the manner of use of the identified asset;

Initial recognition

As of the lease commencement date, the Bank recognizes the right to use the asset and the lease liability, except for:

- the lease, whose leased asset has a low value; and
- the lease, the term of which is less than 12 months.

The lease is recognized in the bank's financial statements as:

- An asset that represents the right to use the leased asset during the lease term; and
- Obligation to pay lease payments.

At the commencement date of the lease term, the lessee shall measure the lease liability at the present value of the lease payments that have not been made by that date. Lease payments should be discounted at the interest rate implicit in the lease if that rate can be readily determined. If this is not possible, the marginal lending rate of the lessee determined on the date of commencement of the lease term shall be used. Variable lease payments are included in the measurement of the lease liability to the extent that it depends on the index or rate. Variable lease payments are initially valued as of the commencement date of the lease term using this index or rate. Other variable lease payments are recognized as an expense in the period to which they relate.

As of the commencement date of the lease term, the Bank's obligation to repay the lease payments shall include:

- Amounts expected to be paid under residual value guarantees;
- the price of the purchase option, if it is sufficiently certain that the lessee will exercise this right;
- Penalties for early termination of the lease, if the lease term reflects the use of the right of choice by the lessee to terminate the lease early.

On the date of commencement of the lease term, the bank must value the right to use the asset at cost. The cost of the right to use the asset should include:

17. Review of significant accounting policies (continued)

- the initial assessment of the lease liability,
- lease payments already made on or before the lease commencement date, excluding incentive lease payments received;
- initial direct costs incurred by the lessee; and
- the assessment of the costs incurred by the lessee during the dismantling and liquidation of the leased asset, to restore the place where the asset is located, or to restore the leased asset to a condition required by the terms of the lease agreement.

Further assessment

After the commencement date of the lease term, the lease liability increases by reflecting interest and decreases by the lease payments made. The asset's right-of-use is reduced by accumulated depreciation and less accumulated impairment. If, under the lease agreement, ownership of the leased asset is transferred to the lessee at the end of the lease term, or the cost of the right-to-use asset reflects the lessee's intention to exercise the option to purchase the asset, the asset should be depreciated from the lease inception date to the end of the leased asset's useful life. Otherwise, the right-of-use asset is depreciated from the commencement date of the lease term to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term.

After the commencement date of the lease term, the bank must reassess the lease liability to reflect changes in lease payments. The lease liability is remeasured using the revised lease payments and the revised discount rate if: the lease term changes, or the valuation of the option to purchase the leased asset changes. If the amounts expected to be paid under the residual value guarantee change or the future lease payments change because the index or rate used to determine those payments changes, the lease liability is revalued using the discount rate determined at the beginning of the lease term, unless the change in lease payments is caused by the changes in variable interest rates.

The amount resulting from the revaluation of the lease liability is recognized as an adjustment to the right of use of the asset. If the carrying amount of the right-of-use asset is reduced to zero and the valuation of the lease liability is also reduced, the remainder of the revaluation amount should be recognized in profit/loss.

In case the bank modifies the contractual terms of the lease, the lease accounting depends on the content of the modification:

- A lease modification should be accounted for as a separate lease if the modification increases the scope of use of the lease and the lease payments are increased by consideration appropriate to the increased scope of use.
- In the case of a lease modification that is not accounted for as a separate lease, the lessee shall remeasure the lease liability at the effective date of the lease modification by discounting the revised lease payments based on the revised discount rate.
- In the event of a modification of the lease, as a result of which the scope of the lease is reduced, the carrying amount of the right to use the asset is reduced to reflect the partial or complete termination of the lease, any income or loss related to the partial or complete termination of the lease is recognized in profit/loss; The lease liability is subsequently adjusted so that its carrying amount reflects the modified lease payments over the modified term, discounted at the rate prevailing at the modification date. In such a case, the right to use the asset is adjusted by the corresponding amount.

The Bank does not separate non-lease components from lease components and instead accounts for each lease component and its related non-lease component as a single lease component.

17. Review of significant accounting policies (continued)

Determination of the term of the lease

The lease term is the non-cancellable period of the lease during which the lessee has the right to use the leased asset, together with the following periods: a) periods that include the right to elect to extend the lease (including those supported by accepted business practices) if it is reasonably probable that the lessee will exercise that right; and (b) the periods covered by the option to terminate the lease early if it is reasonably probable that the lessee will not exercise that option.

Management uses judgment in determining the term of the lease. To assess whether it is sufficiently probable that the lessee will exercise the right to extend the lease or not exercise the right to terminate the lease early, the bank considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the right to extend the lease or not to exercise the right to terminate the lease early.

marginal lending rate

The marginal lending rate is the interest rate that a lessee would have to pay in a similar economic environment to obtain a loan of similar value to the right-of-use asset with a similar term and security.

Management uses judgment to determine the marginal lending rate. Using observable data, the basic rate is determined, which is adjusted by the specific factors characteristic of the tenant and the characteristics of the security (lease object).

Determination of Lease Payments

In Georgia, the lease agreement often does not include a record (or includes an incomplete record) about the renewal/extension of the lease. The existence of the above-mentioned right is established in accordance with accepted business practices. The Bank considers such accepted business practices as part of the contract. For such cases, the estimated lease payments in determining the lease liability are constant throughout the lease term, including the renewable period.

Personnel expenses

Salaries, allowances, paid annual leave and sick leave, bonuses and non-monetary benefits, as well as the amount paid on equity instruments, will be credited to the year in which the relevant services were rendered by the Bank's employees.

Events after the reporting period

Subsequent events of the reporting period and events occurring before the date of authorization of the financial statements, which provide additional information about the financial position of the bank, are reflected in the financial statements. Subsequent events of the reporting period, which do not affect the financial position of the bank as of the balance sheet date, but are significant, are reflected in the accompanying notes to the financial statements..