Integrated Report 2023

About Us

JSC MFO Crystal ('Crystal') is a leading financial inclusion organisation. The company manages loan and leases portfolio together amounting to 443.6 million GEL, employs 985 members of staff, operates from 49 branches and serves up to 114 thousand unique customers across the country. Crystal acts as a platform for economic development, providing farmers and micro and small entrepreneurs with innovative financial (Leasing) and non-financial (Consulting and Technology) products and services that are tailored to their needs. Notably, Crystal is the first Fitch-rated non-banking financial institution in the region (B- Positive). The company also received an A- social rating in 2021 from MicroFinanza, the Global Rating Agency.

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

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

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Strategic Report

At a Glance

Crystal's mission is to strengthen entrepreneurs with capital, knowledge, and skills, so that they transform opportunities into well being.

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

Crystal's overarching strategy is to **leverage existing brand, customer base and extensive branch infrastructure**, while diversifying its product offering to include savings deposits, remittances, currency exchange, mobile banking, consultancy and technology services to both existing and new customers, with focus on the rural segment, micro and small entrepreneurs.

Crystal manages loan and leases portfolio together amounting to 443.6 million GEL, employing 985 members of staff, operating through 49 branches and serving up to 114 thousand unique customers across the country. Crystal's institutional shareholders include Incofin IM and Developing World Markets. At the same time, the company enjoys a longstanding relationship with around 25 lenders, including international Microfinance Investment Vehicles, Development Financial Institutions and local banks.

Financial and Operational Highlights

NET PORFIT

Δ	+ **81.1%**
2023	13,243
2022	7,311

TOTAL ASSETS

Δ	+ **6.15%**
2023	480,524
2022	452,692

LOAN & LEASE PORTFOLIO

Δ	+ **11.58%**
2023	443,617
2022	397,593

TOTAL EQUITY

Δ	+ **18.41%**
2023	78,755
2022	66,509

ROA

Δ	+ **1.18%**
2023	2.95%
2022	1.77%

ROE

Δ	+ **6.78%**
2023	18.44%
2022	11.66%

NPL

Δ	+ **0.16%**
2023	7.62%
2022	7.46%

COST OF RISK

Δ	- **0.08%**
2023	1.66%
2022	1.74%

COST TO INCOME

Δ	**-9.16%**
2023	68.45%
2022	77.62%

BRANCHES

Δ	**-2.00%**
2023	49
2022	50

CUSTOMERS

Δ	- **4.23%**
2023	113,671
2022	118,704

EMPLOYEES

Δ	- **5.74%**
2023	985
2022	1,045

Chair's Statement

Dear Shareholders and Stakeholders,

Reflecting on Crystal's journey, 2023 marked a significant milestone - the celebration of our 25th anniversary. This moment has reinforced our confidence and commitment as we continue to shape an institution esteemed by stakeholders and revered by clients. However, it also underlined the need for significant institutional evolution, as evidenced by our newly ratified corporate strategy for 2023-2025.

Despite the prevailing political and military tensions in the region, Georgia's economy has shown notable resilience. Our GDP witnessed commendable growth of 7%, with a current account deficit of -4.05%. At the same time, the GEL demonstrated yet another year of stability, with 0.5% appreciation in 2023.

Perhaps the most eminent change in Crystal's history was preparation for the banking transformation. It touched every aspect of the company's activities, starting from corporate governance to technology and on-the-ground processes.

Central to this transformation was the reinforcement of our Risk Governance. We centralised risk management, strengthened the control units and made consistent efforts in the Risk Committee, thereby refining the reporting mechanisms and enhancing risk data analysis.

The ALCO reform is equally noteworthy. Upon attainment of our banking license, ALCO will operate under the Board of Directors, assuming primary responsibility for financial risk management. Our enhanced monitoring systems thus empower us to navigate financial risks more effectively.

To align with the fit-and-proper criteria mandated by the National Bank of Georgia, we conducted a comprehensive reappointment process for the members of our Supervisory Board and the Board of Directors. This endeavour encompassed the publication of Bank Crystal's revised organisational structure, delineating role descriptions, qualifications and the evaluation frameworks. The process, overseen by the HRCR Committee, culminated in the signing of renewed management agreements and the establishment of a revamped compensation package.

Simultaneously, shareholder approval paved the way for the composition of the Supervisory Board, which in turn facilitated the reappointment of the Chair and the restructuring of the SB committees. Upon the granting of our micro banking license, Crystal will include the Risk Committee, Audit Committee and the Environmental and Social Committee.

By bringing governance to the next level and by setting the right tone from the top, alongside the dedication of our management and staff, we have witnessed a robust return to the company's usual performance levels. In 2023, we achieved a 11% growth in portfolio (loan and leases), reaching 443.6 million GEL, while also maintaining asset quality with NPLs at 7.62% (compared to 7.46% in 2022). We moreover improved both the Cost to Income Ratio, to 68.45% (from 77.62% in 2022), and ROE, to 18.44% (from 11.66% in 2022), thus signalling our readiness to distribute dividends on ordinary shares

– contingent upon receipt of the banking license. We aim to sustain a dividend payout ratio of approximately 25% of net profit in the future.

Our mission for fostering financial inclusion, as a cornerstone for creating more equitable and inclusive economies, remains unwavering. To this end, we have established clear social objectives and implemented a robust system of social performance management. Correspondingly, we released the Social Impact Report in late 2023.

We engaged 60_Decibels to conduct an independent quantitative research project, enabling us to benchmark Crystal against 120+ other MFIs. We would like to extend our gratitude to our longstanding partner, Proparco, for their invaluable support in this endeavour. The Social Impact Report is now available on our corporate website.

The formulation of a new corporate strategy in 2023, covering the next three years, further crystallised our mission: "To strengthen entrepreneurs with capital, knowledge and skills, empowering them to convert opportunities into wellbeing." Our vision is to emerge as the premier bank for micro-entrepreneurs, grounded in principles of commercial performance, social responsibility and environmental sustainability. The strategy's pillars encompass becoming the preferred choice for micro-customers, enhancing financial performance and effectively managing our banking transformation.

In addition, we have outlined our aspiration to diversify into the SME segment, while further enhancing our environmental and social results. These strategic domains will undergo validation throughout 2024, with detailed insights to be shared with our shareholders and stakeholders.

As for our plans, we look forward to receiving a banking license, which will provide a much stronger position from which to continue delivering financial inclusion services to our customers.

Finally, at our stakeholder event on November the 16th, we commemorated our journey by encapsulating our collective ambition within a time capsule, set to be unveiled in 2048. It symbolises our enduring commitment to remain a customer-centric company, dedicated to sustainably fostering the economic wellbeing of our customers.

Sincerely,

Archil Bakuradze

Chair of the Supervisory Board

Chief Executive Officer's Letter

Dear Shareholders,

2023 was third in a row year of improved results for Crystal. Despite global and regional instability exemplified by globally rising funding costs and Russia's war in Ukraine, the company has made strides in improving profitability, at the same time significantly strengthening our institutional capabilities, processes, and systems.

Crystal's sustained success is most vividly expressed in numbers: just as a year before, we strengthened our results: the loan portfolio surpassed 443.6 million GEL, and the number of our active borrowers was maintained at 114K. We focused on **improving profitability**, which was **successfully managed** despite increase in the cost of doing business in Georgia, and **preparing for the bank transformation**. As a result, **Crystal's ROE has reached 18.44%, compared to 2022 ROE of 11.66%, Cost to Income Ratio decreased to 68.45% (yearly improvement of 9.16%), while portfolio grew by 11.58%.** At the same time, the asset quality remained high thanks to prudent credit risk management.

The company's **risk management framework has significantly strengthened** in 2023, ensuring improvements in loan portfolio quality, operational risk management processes, portfolio risk management, also centralizing and improving underwriting and collections processes.

We continued to attract investments from our longstanding and new international partners, further solidifying our reputation as a reliable financial institution. Company raised 206 million GEL of total investments in 2023. Additinally, a landmark, **first regional certified gender bond** of 25 mln GEL was issued by Crystal and fully subscribed. Our **capital position was strengthened by receipt of subordinated loan of 3 mln GEL.**

At the same time, we remained forward-thinking, by **actively working towards the strategic goal of banking transformation**. We continued large-scale organizational changes with a view to approximating the organizational governance, risk management framework, products and processes of Crystal to that of the bank. As Georgian parliament has signed the law on Microbanks and National Bank of Georgia finalized developing relevant regulatory framework in the last year, **management team's efforts predominantly focused on necessarry** organizational changes and preparation of submission of the relevant license package. These large scale changes affected nearly every aspect of the company's activities.

Digitalization continued and company successfully implemented nearly fifty IT projects of various scale and complexity to support the transformation effort. In 2023, **we commenced work on a new, large-scale project – introduction of Loan Origination system**. This project aims to replace the existing credit modules and bring all aspects of customer lending into a single unified system. After project completion, the lending process will be simplified significantly; namely, the quality will improve and service time will decrease.

These well-coordinated efforts **successfully culminated in the submission of the micro-bank license to the National Bank of Georgia at the end of 2023**. Looking ahead we are confident that Micro bank transformation will result in a higher customer retention and increased non-credit revenues, and fuel the growth of the loan portfolio, which will subsequently unlock the efficiencies of scale. Transformation will also strengthen Crystal's positioning by unlocking a substantial shareholder value against the low risks of the highly regulated banking sector and Georgia's consistently robust macro-prudential performance.

It is noteworthy that all priority areas which were planned in 2023 – **microbank license application, improvement of financial results, organizational capacity strengthening – have been successfully implemented.**

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

- Fitch Ratings **upgraded Crystal's outlook to Positive** in 2023, which amidst the global challenges, is a significant success.
- Scope ratings assigned Crystal the highest score within its social framework, leading to Crystal becoming a **winner in the capital market development programme**, sponsored by the EBRD and EU in Georgia.
- We became an **award winner at the Best Annual Report and Transparency Award "BARTA"** for the fifth year in a row, confirming that we continue to be committed to one of our major organizational values - transparency.
- For the third time since 2019, **Crystal won the Corporate Sustainability Award**, hosted by the UN Global Compact Georgia Network for work in women's empowerment and reducing inequalities.

Outlook

Georgia's economic performance and the benefits of the Crystal's strong business model leave us well-positioned for the future. Amidst the existing challenges, the success of Crystal has a positive impact not only on the sustainable development of our company, but also on the entrepreneurship and economic recovery of Georgia as a whole. I believe we will keep on the same track in 2024 as well. Through joint team efforts, we will manage to turn Crystal into a successful and robust bank. The key priorities for 2024, are as follows:

1. Successful receipt of microbank license and completion of the transformation
2. Further improvement of the financial results
3. Automation of the loan application and decision-making processes
4. Developing distance service channels for our clientele (mobile banking first and foremost)

Our People

Implementation of such large-scale projects and organizational changes required hard work, dedication, mutual understanding, along with constant individual and collective learning. **Although 2023 abounded with a lot of market uncertainty, strong teamwork and managerial foresight helped us successfully manage significant changes.**

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

Our people bring success to Crystal!

Ilia Revia

Macroeconomic and Market Overview

Gross Domestic Product

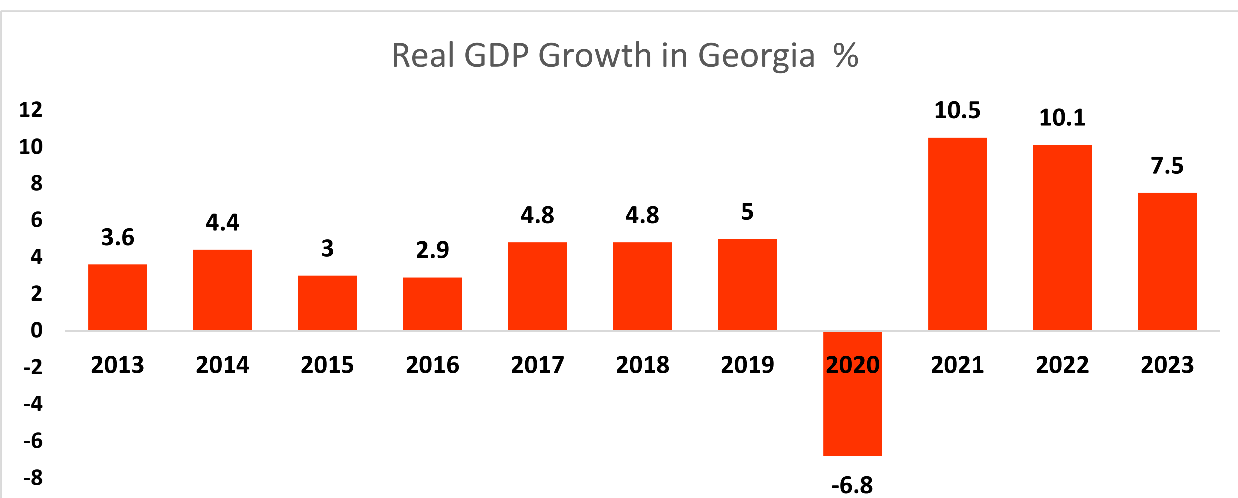
2023 was a challenging year, both from political and economic perspective. Georgian economy growth rate was lower versus the previous years; still, the macro parameters showed a relative improvement. Real GDP growth made up 7.5% while GDP per capita reached 8,210 US dollars.

Overall, the economic landscape improved vis-a-vis the previous year. Compared to the pre-pandemic period, the expectations for the current period were positively shaped, which was translated into a positive impact on the economy.

Despite the Russian-Ukrainian war ongoing throughout the year, the number of migrants from Russia did not increase but rather, showed a declining trend. Meanwhile, the impact of these processes on foreign currency inflows weakened and the shock prevalent in 2022 was neutralized. The 2022 war-related dramatic hike in remittances did not persist in 2023. In fact, the war factor was almost neutralized by the end of 2023.

Total remittances in 2023 decreased by 5.7% YoY and made up 4.1 billion US dollars, mostly due to the reduction of remittances from Russia (26.2%); along with the increasing emigration, the remittances from the European Union increased by 25.2%;

Tourism revenues reached almost 4.1 billion US dollars, which exceeds the pre-pandemic 2019 and 2022 figures by 26.2% and 17.3%, respectively.

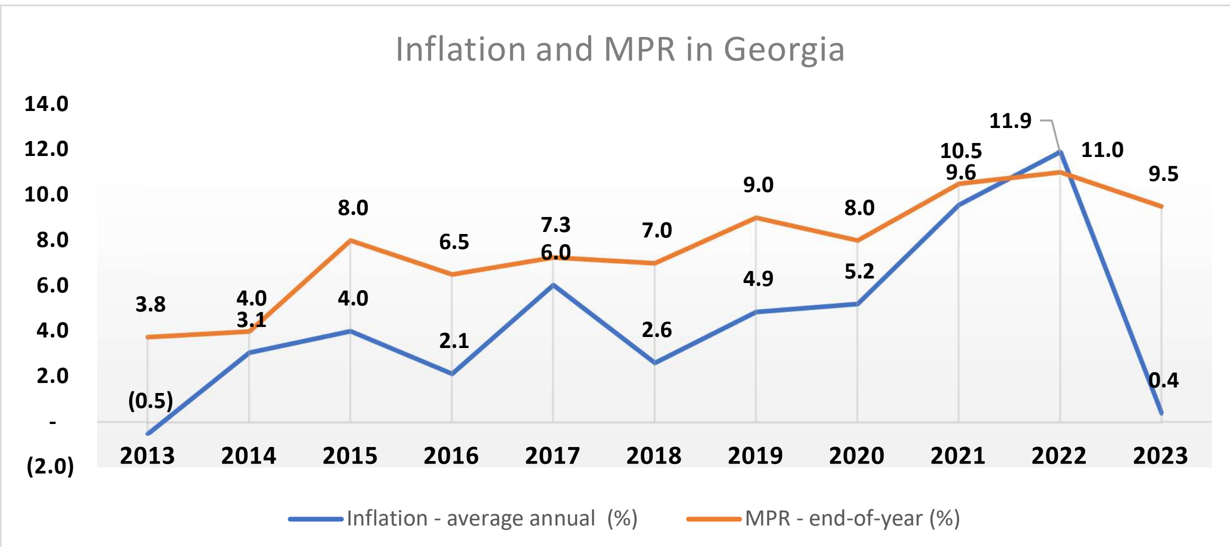


Source: National Statistics Office of Georgia

Inflation and the Monetary Policy Rate

The restrictions imposed in response to the Covid-19 pandemic in 2020-2022 increased production costs, elevating the inflation risks and prompting the National Bank of Georgia to keep the monetary policy rate (MPR) high throughout 2020-2023. It has been followed by a sharp increase in the FED and ECB rates, the recovery from the initial shock of the Ukraine-Russia war, the restoration of supply chains, the stabilization and decline of oil and food prices. As a result, the average annual inflation dropped by 11.5 pp versus 2022 and made up 0.4%. As per the forecast of the National Bank and analysts, the inflation rate will be steadily maintained close to 3% over the next 3 years.

Alongside the declining inflation, the National Bank of Georgia started easing the monetary policy rate from the second half of 2023; in particular, the MPR dropped by 1.5 pp YoY, to stand at 9.5%. The softened monetary policy rate is expected to further stimulate the lending market and contribute to GDP growth. As projected, MPR will further stabilize over the next 3 years, being maintained within 7%.

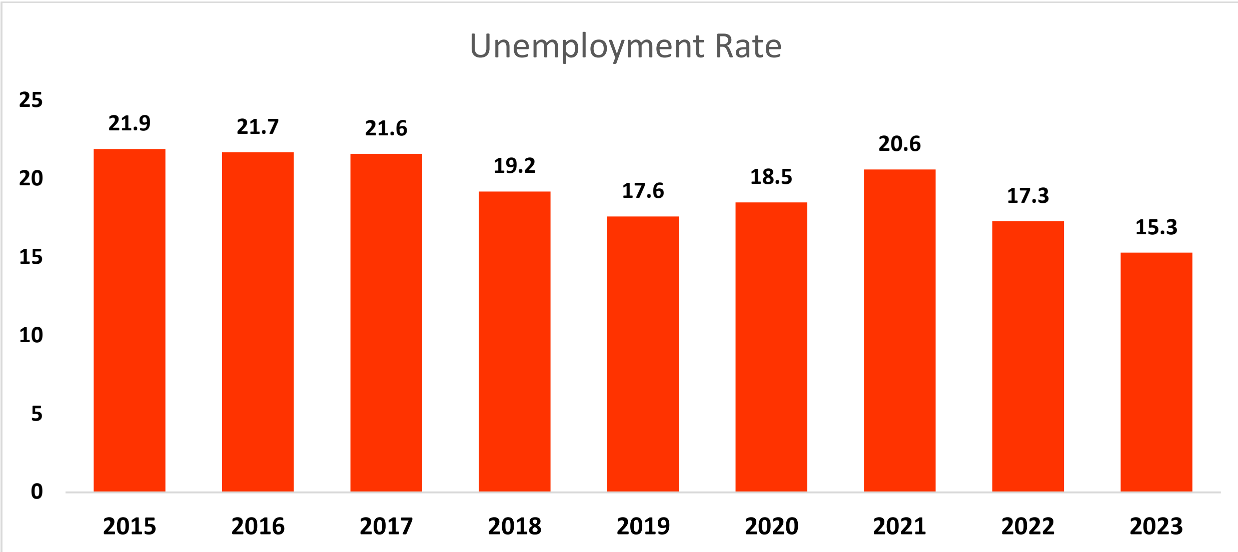


Source: National Statistics Office of Georgia and the National Bank

Jobs and Unemployment

Starting from 2020, the National Statistics Office of Georgia updated its employment calculation methodology. Under the new methodology, those working in their own households and manufacturing products primarily for personal consumption (more than 50%) will no longer be considered self-employed. Such individuals have been reclassified into other categories among the unemployed or those outside the labour force. As a result of this new standard, a recalculation of historical data was required and the National Statistics Office of Georgia has subsequently updated the data since 2010.

Compared to 2022, the unemployment level decreased by 2.0 pp in 2023, equalling 15.3%. This was largely due to additional jobs created by the state and business, increased demand due to migration from Russia- Ukraine, and the outflow of unemployed from Georgia. The decline in the unemployment rate led to a sharp increase in labor market remuneration and a deficit. Over the next 3 years, the unemployment rate is expected to drop to 12%.



Source: National Statistics Office of Georgia

Exports and Imports

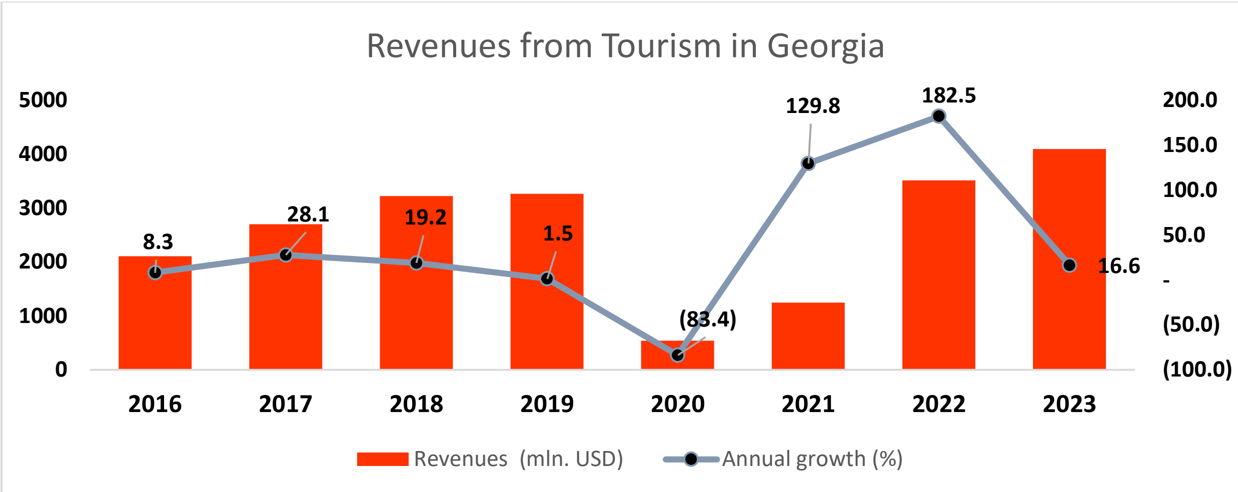
Over the last 3 years, high economic growth, recovery of tourism, rise of remittances and migration each boosted imports and exports. Appreciation of the national currency also played a major role in the growth of imports.

The export of goods in 2023 amounted to 6.1 billion US dollars, which is 9% more YoY. The most notable contributors were the CIS countries (66%) and the European Union (11.5%).

In 2023, the import of goods amounted to 15.6 billion US dollars, which is 14.9% more compared to the previous year. The major contributors to import were the CIS (21.2%), EU (24.5%) and Turkey (16.5%).

Tourism

By 2022-2023 figures, revenues from tourism exceeded the pre-pandemic period (2019) indicators. There is also a tangible improvement YoY. In particular, compared to 2022, tourism revenues in 2023 increased by 16.6%, reaching 4,100 million US dollars.

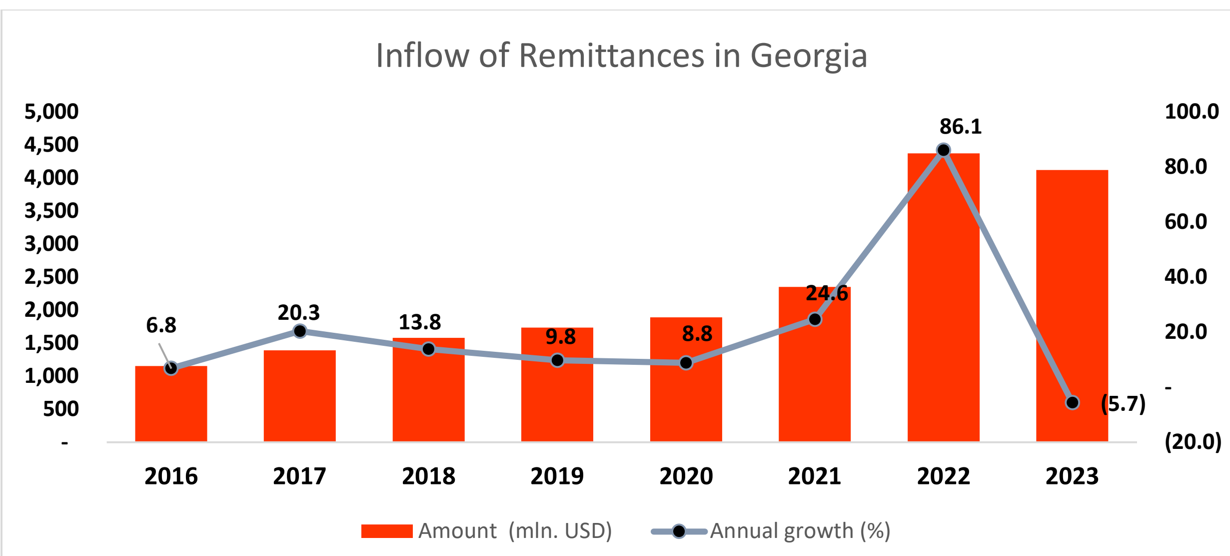


Source: National Bank of Georgia

Remittances

The flow of remittances decreased by 5.7% YoY in 2023 and amounted to USD 4,123 million. The main contributors to the growth over the last 2 years are remittances from Russia.

A significant share of remittances came from Russia, with 37% (USD 1,526 million, indicating a decrease in the share by 10.3 pp YoY), Italy ranks second - with 12.6% (USD 519 million, i.e. an increase of the share by 2.7 pp YoY), followed by the USA with 11.1% (USD 456 million, i.e. a rise of the share by 3.6 pp), and Greece with 5.9% (USD 242 million, an increase of the share by 0.8 pp).

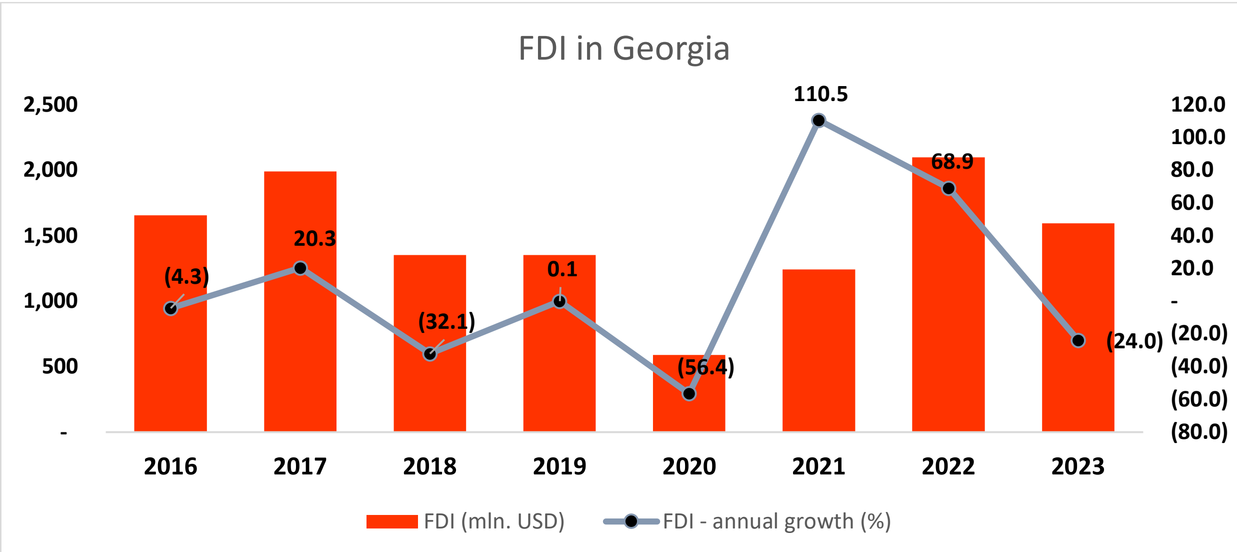


Source: National Bank of Georgia

Foreign Direct Investments

According to the preliminary data, in 2023 Foreign Direct Investment (FDI) inflows to Georgia amounted to USD 1,595 million - 24% less than the specified data from 2022.

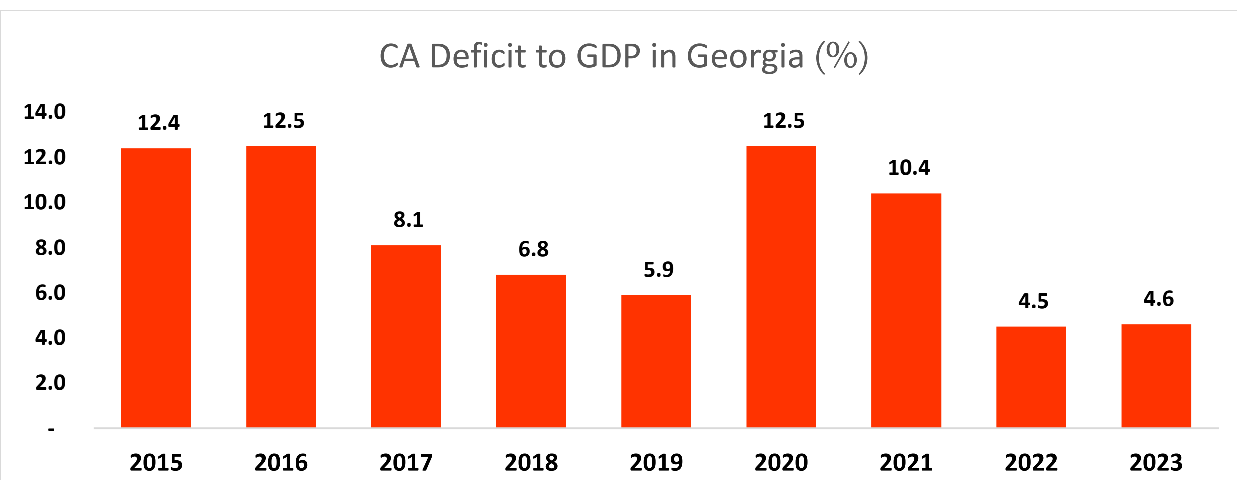
According to the same source, the largest share of FDI in 2023 came for the financial sector – 39.5%, followed by manufacturing - 18.3%, transportation – 8.7% and trade - 7.3%.



Source: National Statistics Office of Georgia

Current Account

In 2022-2023, CA deficit stands at the historical minimum, resulted from significantly increased remittances, exports, FDI, revenues from tourism, appreciation of the national currency alongside the opening of the economy, all had a positive effect on the Current Account (CA) balance.



Source: National Bank of Georgia

Exchange Rates and Foreign Currency Reserves

In 2023, compared to 2022, the average annual GEL exchange rate against the USD decreased by 3.03%, by 13.3% against the EUR, whilst appreaciating by 44% against the Russian ruble and by 36.6% against the Turkish lira.

Depreciation of the GEL exchange rate against the USD and EUR was reflected in the decrease of REER by 3.1% and 6% YoY, respectively. In 2023, the foreign currency reserve amounted to USD 5,010 million.

Budget Deficit and Public External Debt to GDP

Against the positive macro landscape and the economic growth, the budget deficit has been on the decline for the last 3 years. In particular, the deficit totaled 9.3% in 2020 while in 2023, it stood at 2.4%.

According to preliminary data, public external debt to GDP amounted to 38.2% in 2023, that is, 39.5 pp less YoY. The main contributing factors were low budget deficit, exchange rate and economic growth.

Lending Market

The lending market has been defined for commercial banks and microfinance portfolios with contracts for the disbursement of loans up to 100,000 GEL and a maximum maturity period of five years for resident households.

In 2023, as compared to 2022, the portfolios of commercial banks increased by 13.7% (GEL 1,162 million) YoY, reaching GEL 9,640 million. Whereas, microfinance organizations' portfolios grew by 8.22% (GEL 129 million) YoY and made up GEL 1,703 million. As such, the total market size for portfolios increased by 12.85% (GEL 1,292 million) YoY and stood at GEL 11,343 million.

In terms of loan contracts in 2023, the market size expanded by 5.27% (by 181 thousand) YoY over 2022, and amounted to 3.61 million contracts. In commercial banks, they increased by 6.05% (157 thousand) YoY and amounted to 2.76 million contracts. Loan contracts from microfinance organizations increased by 2.83% (23.4 thousand) YoY, equaling 850.5 thousand in total.

Corporate Strategy

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

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

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

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

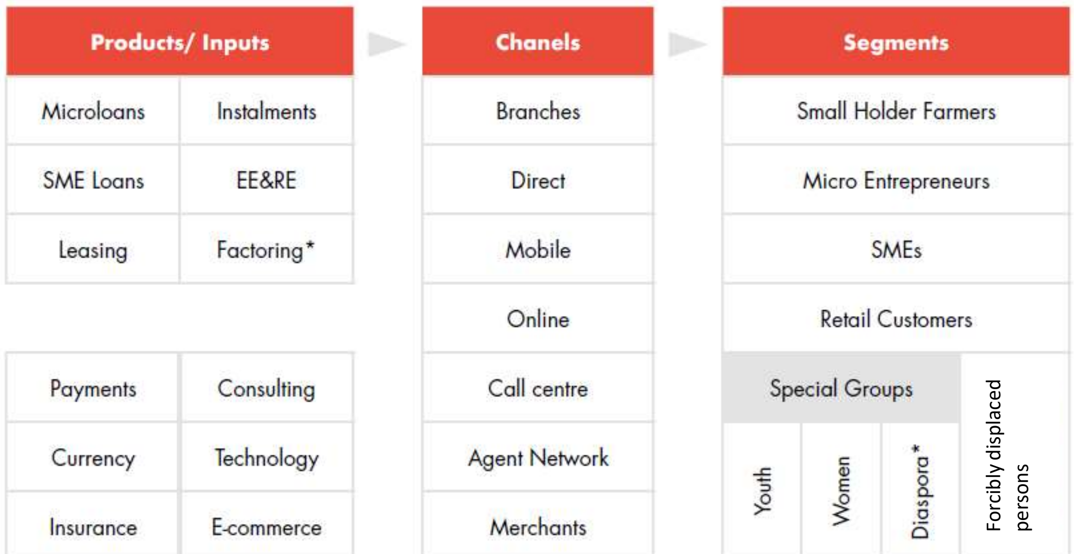
Crystal's **strategy is to leverage existing brand, customer base and extensive branch infrastructure, while diversifying its product offering** to include savings deposits, remittances, currency exchange, mobile banking, consultancy, and technology services to both existing and new customers, with **focus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

Mid-term strategic objectives will be as follows:

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

Business Model

Crystal is a leading Georgian financial inclusion organisation, which provides various financial and non- financial services. We focus on providing the best and personalized customer experience in micro finance via branches and digital channels. The following diagram encapsulates Crystal's business model:



* *Future prodicts and segments*

Our lending business offers a wide range of products to retail and business clients, creating an exceptional customer experience, with comfortable and innovative microfinance solutions alongside personalised consulting and development services within our business support programs.

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

Crystal's funding sources are diversified and derived from foreign financial institutions, although local commercial banks also represent a significant source of funding. Crystal has also developed alternative funding, such as issuing and placing corporate bonds.

Significant Business Updates

Within Crystal's extensive history, 2023 proved to be a year of significant improvements in both business results and in meeting challenges. A number of noteworthy strategic decisions were made in the direction of business, while new projects and products were also established. Consequently, record-level indicators were observed for certain products.

In 2023, Crystal's loan and leases portfolio increased by 11.58%, equalling 443.6 million GEL. Throughout the year, the company served over 114,000 customers.

In total, loans of 527 million GEL were issued, exceeding the indicator for 2022 by 14.5%. The number of active credit customers accordingly amounted to 113,500.

A second branch was opened in Batumi during the year, thereby leading to more accessible and comfortable services for residents in the region of Adjara.

Crystal has actively been pursuing the strengthening of its agricultural objectives. The volume of the agricultural portfolio thus exceeded 102 million GEL, 22.2% higher than the previous year's indicator.

In 2023, an agreement was signed between Crystal, the Ministry of Environment and Agriculture of Georgia and the National Food Agency. As a result, Crystal gained access to a unified database for the identification and registration of animals, on which it is possible to verify the data of potential customers. Agricultural technology cards have moreover been improved and updated.

There have also been changes in the auto product, where its conditions have been updated and adapted to the competitive market environment. The product sales channel has been expanded, and automated services have additionally been launched. As a result, the portfolio increased by 114% – exceeding 31 million GEL by the end of 2023.

A process for financial analyses via video visits was developed and introduced in 2023, and this helped expedite the customer service process.

Additionally, the structure of network management has changed; six regions have been identified within the network; and to direct the instalment product more efficiently, four additional coordinators have been appointed. Regional management has also become more focused on services, which is essential for quality improvement.

During the first half of 2023, Crystal actively cooperated with Enrian, the international consulting company, to improve the effectiveness of the branch network. A complete analysis of the sales process was thus conducted, based on which recommendations were prepared and changes were thereafter introduced.

The company continues to successfully provide loans under the DFC/USAID/SIDA loan guarantee mechanism. Thus far, more than 8,000 loans, worth 34 million GEL, have been issued under the scheme; in terms of amount, this exceeds the previous indicator by 15% and in terms of number - by 13%. Throughout the year, the company was able to repay up to 100 problem loans through the guarantee scheme, the initial amount of which equated to approximately 200,000 GEL.

In order to support internally displaced persons from Ukraine, a joint project from IFC and Crystal was launched in 2023. An agreement was signed between the parties to provide increased access to financial resources for internally displaced persons from Ukraine.

In 2023, together with a partner company, Alta, Crystal commenced work on a new, large-scale project – and introduced the Loan Origination module. This project aims to replace the existing loan modules and bring all aspects of customer lending into a single channel. After project completion, the lending process will be simplified significantly; namely, the quality will improve, and service time will decrease.

In 2023, the digital onboarding of customers began, specifically this will allow clients to receive certain services remotely, easily, and quickly.

Notably, the growth rate of the credit expert's portfolio doubled, reaching 26 loans that amounted to 145,000 GEL.

The company is actively continuing to develop its green initiatives. In 2023, the amount provided for green financing purposes reached over 26 million GEL, an increase of 18% YoY.

Furthermore, Crystal offered its customers a special 0% "green instalment" for purchasing energy-efficient wood stoves in 2023. This product was created within the framework of a Georgian forestry reform project, Eco Georgia. Crystal has been involved in the project since 2021, within the framework of an agreement signed with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), which contributes to the development of a key component of the forestry reform – energy efficiency and the alternative fuel market.

In 2023, significant changes were made in the company under its insurance products:

a) A life insurance product was added to auto loans.

b) New insurance products were introduced, such as third-party liability insurance and property insurance.

c) Life insurance product was optimised to ensure unconditional compensation for the instalments of up to 3,000 GEL.

The changes provided the possibility to compensate the outstanding losses without additional documentation and consideration, worth of 435,000 GEL as of 2023.

The life insurance portfolio increased by 85 million GEL in 2023, with more than 90% of customers using the product.

In 2023, various measures were moreover implemented for the development of remittances. In particular, automation of the currency exchange rate was introduced. The company further offered a preferential rate to remittance users, thus making the product more attractive. As a result of the technical work conducted, the process was significantly improved, and the service time decreased (the service of transferring information to the credit bureau was equally introduced). In total, the company received an income of up to 550,000 GEL from remittances in 2023, while serving 48,000 customers.

In 2023, the company actively started providing an SMS service, and up to 50,000 customers had used this service as of December 31.

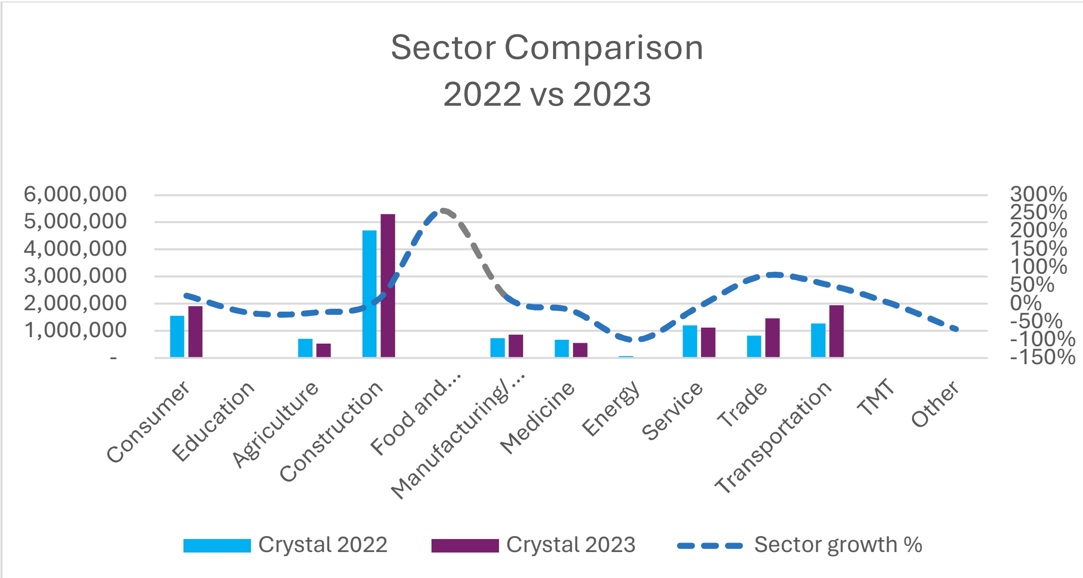
The development of non-credit products has remained a top priority for the company. In this regard, important technical and methodological works were conducted. Specifically, a non-credit team was formed, and active work was launched on the investment product “Moneta” – the total funds raised therefrom exceeded 1 million GEL in 2023.

Leasing

Since 2020, Crystal has been working on an alternative financial product – fixed asset leasing – to offer a distinguished product to development-oriented small and medium entrepreneurs. Thus far, leasing has served over 500 entrepreneurs and financed the purchase of more than 1,000 devices and pieces of industrial equipment.

As of the end of 2023, the total leasing portfolio amounts to 12.419 million GEL and includes 321 unique customers. In total, Crystal holds 3% share of the leasing market, amounting to 494 million GEL.

In 2023, the portfolio grew by 24%. The growth was observed within the sectors of transport, services, and construction. By sector, the portfolio distribution looks as follows:



In 2023, the yield totalled 27.10%.

Throughout the year, important operational functions and links were improved, including asset inspection and monitoring; repossessions and terminations management, with the appropriate logistics support mechanisms; and insurance procedures and insurance case management. The monitoring process for the GPS tracking system was also enhanced.

Risk underwriting has been combined with loan underwriting. As a result, leasing underwriting has been consolidated under the umbrella of centralised risks, and it has become a part of the unified credit policy.

Relationship with Investors and Funding

To effectively secure financial resources for the company, the Funding and Investor Relations Department worked in full coordination with the Business and Finance Directorates throughout 2023. As a result, despite macroeconomic and political challenges, the company ended the year successfully and achieved its strategic goals.

2023 was characterised by a decrease in the cost of funds, thus improving the financial health of the company. It should be noted that despite reduced liquidity from international funds, thanks to a properly diversified funding structure, the company was still successfully able to obtain the required facilities and reach the target funding rates.

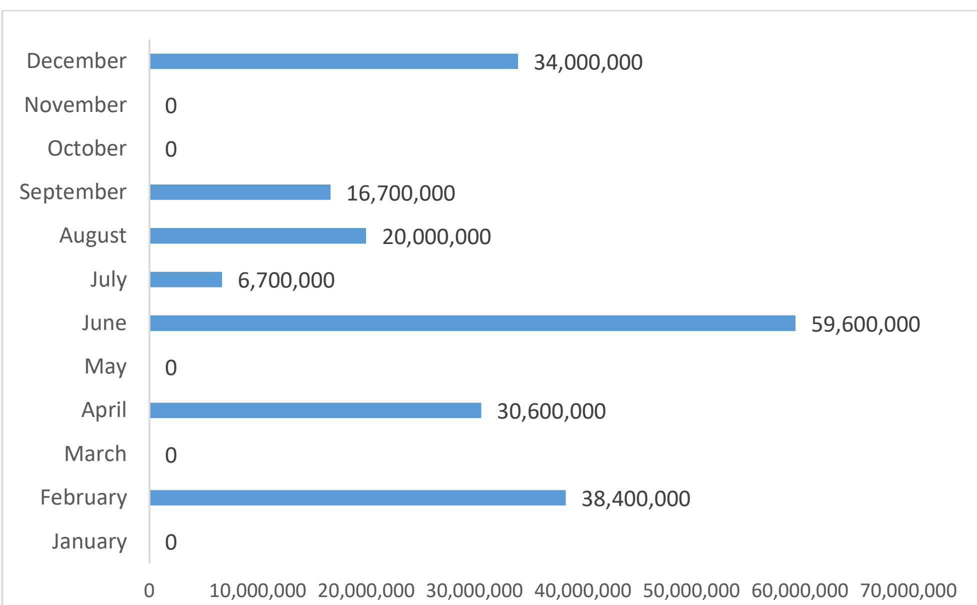
In 2023, a new function was added within fundraising and investor relations, to ensure compliance with the covenant requirements by the company. As a result of the improved management of the financial parameters, there has not been a single violation of the covenants since August 2023, thus demonstrating the company's high-quality management and further raising the confidence of donors.

Concurrent with the banking transformation, the company has effectively managed capital and the related covenant. To strengthen its capital position, in June 2023, Crystal received a subordinated loan of 3,000,000 GEL from ASN Microkredietfonds.

In 2023, 21 transactions were completed for a total of 206 million GEL, of which:

- 8 were with international partners (84 million GEL).
- 13 were with local banks (122 million GEL).

In terms of the respective currencies, the ratio was as follows: 75% in GEL and 25% in USD.



**Funding results in GEL by months,*

Historically, the share of international partners within the funding structure of Crystal has been 80%, however this indicator fell to 68.1% in 2023. This reduction was due to rising inflation and, accordingly, the increased rate of US Federal Funds, which simultaneously raised the 6-month SOFR indicator. This had a negative impact on Crystal's funding structure, increasing its costs in USD. Considering the current situation, the management shifted its focus to local funding and started to develop cooperation with banks. Consequently, by the end of 2023, the volume of contracts with banks reached 117 million GEL – 31.5% of the total financing. From 2022, the company created a new funding channel in the form of promissory notes, through which it managed to raise 1.3 million GEL (0.4% of total funding).

Foreign financing was predominantly implemented in foreign currencies, leading to the increased need for a hedging instrument. Resultingly, cooperation with local banks was further deepened in the direction of swaps, which was also facilitated by the macro environment. In particular, the cost of hedging decreased from 9.00% to 4.65%. As Crystal had 61 million USD hedged by the end of 2023, the company saved significant costs in this regard.

At the same time, Crystal never stopped seeking additional funding sources or working on the capital market. In cooperation with the brokerage agency Galt & Taggart, the company conducted a transaction amounting to 25 million GEL. This transaction was the third of its kind for Crystal, as such it added to credibility on the local market and amplified interest in the company. Additionally, an agreement was made between the Asian Development Bank (ADB) and the Bank of Georgia, whose participation was determined at 75% and 25%, respectively. This resource is significant due to its special purpose – the financial empowerment of female entrepreneurs and the promotion of gender equality.

The rating company Scope gave Crystal the highest score within its social framework, leading to Crystal becoming a winner in the capital market development programme, supported by the EBRD and the EU in Georgia.

Furthermore, improved financial indicators positively affected the international credit rating: Fitch Ratings changed its Stable Outlook to a Positive Outlook, thus the company ended 2023 with B- Positive Outlook.

Transaction Partners in 2023:

Technical Assistance in 2023

Alongside the funding process, the team also worked on technical assistance. Since the beginning of the year, the core focus has been supporting the banking transformation programme. The targeting of grant schemes was also appropriately determined, based on banking needs, in combination with social and environmental issues. In total, the company implemented four projects, in the amount of 340,000 USD.

Crystal aims to maintain robust, trust-based and transparent partnership relations, thus ensuring long-term and sustainable development for the company.

Risk Management in 2023

Developing a sound and effective Risk Management System, based on international standards and best practices, is one of Crystal's most significant goals. To improve the risk management framework, the company conducted the following activities in 2023:

Credit Risk Management

- The company maintained an appropriate credit risk management system.
- The company's risk appetite changed significantly in 2023, ensuring improvements in loan portfolio quality.
- In 2023, the company's underwriting process strengthened significantly due to the introduction of data-driven decision-making tools. These tools are based on both expert knowledge and data, which are both critical in credit risk management processes.
- Centralisation of underwriting started at the end of 2023 and is scheduled to end in February 2024.
- At the end of 2023, the introduction of a statistical model allows the company to start automatic review processes for loan applications. Consequently, it became possible to respond to applications within 3-5 minutes.
- The portfolio risks direction was significantly strengthened, and the focus has increased towards decisions based on data and statistical analysis. The portfolio analysis process has been updated significantly and has become much more informative, thereby contributing to better risk identification.
- The expected credit loss calculation model has been updated and is in full compliance with the requirements of IFRS 9. The amended model allows the company to calculate expected credit losses with much greater accuracy and to ensure their prevention.
- In 2023, the counterparty risk management policy was updated to provide for the assessment and monitoring of counterparty risks and the management of appropriate limits.

Operational Risk Management

- The Risk Self-Assessment (RSA) tool was introduced into Crystal in 2023, enabling the company to assess the effectiveness of the existing controls in critical business processes and to identify weaknesses.

- Key Risk Indicators (KRIs) were also introduced, thus enabling the company to identify and plan the prevention of expected risks at an early stage.
- A New Risk Assessment (NRA) process has been implemented. This process helps predict expected risks within new products, channels, and processes, and to embed the appropriate controls.
- The Risk Events Database (RED) was also updated in 2023. It allows the company to further analyse weaknesses in the existing controls. The data collected has consequently become notably more informative.
- In 2023, the Business Continuity Plan (BCP) was updated to encompass all critical business processes throughout the company; the BCP is a key tool used to maintain the continuity of business processes in critical situations.

<u>Compliance Risk Management</u>

- The Compliance Risk Management Policy was updated in 2023. This policy ensures that the vision of the Supervisory Board (SB) is implemented throughout the company, which in turn provides the basis for managing compliance risks.
- Compliance with anti-money laundering and anti-terrorism regulations plays an important role in compliance risk management. In 2022-23, the company made considerable improvements to the process, considering the recommendations of the regulator. Procedures were consequently amended, processes were refined, and technical support was also improved.
- A quarterly compliance report is recurrently submitted to the Supervisory Board.

<u>Liquidity Risk Management</u>

- In 2023, the liquidity management policy was further updated. The revised policy clearly expounds every possible factor affecting liquidity and it equally identifies prevention mechanisms.
- The company regularly prepares stress tests and plans, with the appropriate response actions.
- In order not to be dependent on a single source, the company has set a funding source concentration limit of 20% for total liabilities.

<u>Foreign Exchange Risk Management</u>

- An open position limit of +-10% has been approved to safeguard risk limitation. Despite the regulatory possibility for the position to be within a +-20% limit, the company has maintained a conservative approach.

Interest Rate Risk Management

- The company responds appropriately for the ratio of maturities of liabilities and for assets to be maintained on the balance sheet, therefore it is possible to reflect price changes in the market on its assets in a timely manner.
- In 2023, the company updated the interest rate risk management policy and model.

Capital Adequacy Risk Management

- The company updated its capital adequacy management policy in 2023, defining the relevant powers and the responsible directions.
- The ICAAP model was created to allow the company to measure the coverage of all potential risks with capital.
- In 2023, important structural changes were enacted within the company: an appropriate structural unit was created within the Risk Directorate, representing the second line of defence in the liquidity, currency, interest rate and capital adequacy risk management process. Under this change, the management introduced a three-line defence mechanism throughout all risk management processes.
- The ALCO Committee is an effective financial risk management body. In 2023, a new Charter was prepared for the ALCO Committee to ensure the strengthening of the Committee’s function at the managerial level and for greater focus on risk management.

Corporate Social Responsibility

Significant Projects Implemented in 2023

- **Crystal Won a Corporate Sustainability Award from the UN Global Compact Network Georgia**
  The project run by Crystal – Women's Empowerment for Reducing Inequalities – was announced as a winner within the Corporate Sustainability Award, hosted by the UN Global Compact Network Georgia. The company received the award as a nominee for reducing inequality (Sustainable Development Goal (SDG) 10) in the large business category. The project Crystal presented describes the strategy and approaches the company has been implementing to strengthen women, as well as the major projects implemented in the support of female entrepreneurs within the regions.

- **Crystal's Social Impact Report - 2023**
  A social impact study was conducted among Crystal customers to analyse the impact of Crystal's products on business and the quality of life of its customers. As the results of the study indicated, the financial capabilities of Crystal users were improved:

  - Quality of life improved for **86%**.
  - Access to finance increased for **31%**.
  - 70% of customers saw an increase in business profit.
  - Crystal loans had a significant positive impact on the self-perception of customers – with the enhanced ability to achieve goals observed by **78%** of respondents.
  - **59%** of Crystal customers are female, with their portfolio amounting to **49%** of the total portfolio.

- **Gender Bonds**
  Crystal issued 25,000 thousand GEL 2-year certified gender bonds. The transaction aims to increase access to finance for women entrepreneurs, funding their micro, small and medium businesses, thus providing economic empowerment to women and promoting gender equality in Georgia.

- **Development of Green Initiatives**

  The company is pursuing the development of its green initiatives, where in 2023:

  - 4,473,500 kWh energy was saved.
  - Emissions of 691,000 kg CO_2 were prevented.

- **Within a business product specially designed for Ukrainians in Georgia in 2022**, Crystal sponsored 25 citizens of Ukraine, 70% of whom were women. In 2022-23, the annual needs of these funded start-ups reached 247,500 GEL.

- **In cooperation with the Asian Development Bank (ADB), within the framework of technical support, working meetings have been launched for the improvement and creation of gender and ESG training modules under the Gender Action Plan (GAP).**

- Empowering Women and Supporting Young Entrepreneurs
  - **The Buzz Georgia Women's Empowerment Mission**, launched by Crystal in partnership with USAID Georgia and the Netherlands in 2020, **has already trained 4,006 women across the country**. By increasing their personal and entrepreneurial skills and motivating them, more than 4,000 members of their families have been empowered in up to 30 villages and towns across the country. Thus, Crystal has contributed to the creation and growth of local wealth in the regions of Georgia.
  - More than 200 face-to-face and online training meetings have been conducted. The Mission has covered more than 30 municipalities across the country, and during the process found over 350 outstanding women participants and leaders from the regions.
  - Over 6,344 young people (including 4,606 girls and 1,738 boys) have participated in **Crystal's Young Entrepreneurs' School**, implemented within the USAID YES-Georgia Supporting Youth and Women Entrepreneurship Program. Crystal thereafter financed 114 young entrepreneurs (64% of whom are women), and 72 enterprises are continuing their successful activities. The total amount allocated by Crystal for financing such enterprises amounted to 654,672 GEL.

- Raising the Financial Awareness of Customers
  - Raising the awareness of its customers is a priority direction for Crystal as a responsible financial organisation. For this purpose, the company is actively involved in financial awareness-raising initiatives (FinEdu) organised by the National Bank of Georgia.
  - Crystal was one of the first companies to have joined the Global Money Week campaign organised by the National Bank of Georgia.
  - In 2023, in a poster and slogan competition devised as part of Global Money Week, Crystal functioned as one of the companies on the jury and awarded a cash prize to the winning contestant.
  - Crystal was also one of the partner companies of the National Bank of Georgia and FinEdu within the framework of a second project in 2023, entitled Financial Education Artistically.

People in Our Organization

The year 2023 was particularly important for the company in terms of the development and management of talent:

- In total, the company hired 270 new employees during the year; 133 people participated in the internship programme. Moreover, 81 employees were promoted, including 24 employees in the head office and 57 in the branch network.
- Within the framework of the ongoing banking transformation, and the centralisation of various processes, significant changes were undertaken in the organisational structure of the company.
- The Goal Setting and Performance Evaluation system was suitably updated. To develop competencies within this area, senior officers and department heads were retrained. In total, 33 employees were trained.
- To increase employee motivation, several events were organised during the year. Among which, the Crystal Olympics, held in February 2023, and an event organised for the children of employees to celebrate Children's Day are particularly noteworthy. Moreover, personal development training sessions were held for the company's internal trainers and members of the mentors' club; and certificates of appreciation were presented to outstanding employees, with several being awarded the status of Master Trainer and Master Mentor.
- To motivate employees in Kutaisi head office, a recreational and entertainment space was organised within the office area.
- Throughout the entire year, the HR Department actively cooperated with state and private universities, and attended forums held in regions across the country. Additionally, as part of the USAID Civic Education Program, Crystal was a representative partner organisation in the School-Business Forum.
- The company renewed its bonus scheme for six positions (branch managers, team leaders, credit officers, universal cashiers, in the problem call centre and for promissory note bonuses); and further created new salary and bonus systems for three more positions (the problem call centre, instalment centre and in underwriting).
- Furthermore, the general authorisation rights document was updated; rules and procedures for business trips abroad were developed; the procedures for overtime compensation, disciplinary liability and leave were renewed; and various rules and procedures have been adjusted in accordance with the actual practice.
- Amendments were made in the basic training programme for newly recruited credit officers: an audit training component was added, positively affecting training results. The number of those failing the exam decreased by 7% YoY, while the average score of the participants increased by four units.

- A professional training course for newly appointed branch network managers was created.
- Professional employee qualification assessments were conducted, within the framework of which branch managers, team leaders, credit officers and cash desk employees were evaluated – 462 employees in total.
- A training programme was developed to raise the awareness of risks for head office managers, within which 62 managers were trained.
- Certificate training sessions related to regulatory requirements were conducted; and the certification of occupational safety specialist and movable/real estate appraisers was also conducted.
- A training course for assessing the financial efficiency of branches was established, within the framework of which 49 branch managers were trained.
- To improve employee managerial skills according to the Agile principle, training in this business direction was conducted (8 product owners); while 16 IT employees were trained in the topic of "Agile in technological teams".
- In 2023, various forms of training were implemented, including induction training, basic professional training for new employees, professional retraining (training/workshops) and the development of managers.

Management of Operations

In the second half of 2023, a separate direction, headed by a Chief Operating Officer, was added to Crystal's organisational structure. This large-scale organisational change was required to make the company's structure, processes, and products as close to the banking reality as possible.

Considering Crystal's goal to become the leading bank serving micro and small entrepreneurs, developing a clear operational direction, and strengthening operational management are essential. The aim of this newly formed operational direction is to increase the efficiency of processes and workflows, thus constantly seeking optimisation and automation opportunities; managing changes; ensuring the readiness of operational infrastructure after receiving the microbank license; and strengthening institutional capabilities.

Crystal's operational direction includes the following structural units:

- Centralised back office
- Cash Management Department
- Administrative Department
- Procurement Department

On its establishment, the operations direction was immediately involved in actively supporting the strategic tasks and subprojects envisaged under the microbank license project, in communicating with partners, and in identifying issues to organise the necessary and important services required for banking operations. With the full support and ownership of the operational direction, the following projects are ongoing within the company:

- Integration with the Revenue Service, which entails receiving and executing collections/seizures and the exchange of information on opening/closing accounts after commencing banking operations.
- Integration with the National Bureau of Enforcement, which involves receiving and executing collections/seizures after starting to operate as a bank, alongside the exchange of information with the register of debtors.
- Establishment of a connection with the LEPL National Agency of Public Registry, which involves obtaining information on entrepreneurs and non-entrepreneurial (non-commercial) legal entities from the unified Agency database.
- Identification of relevant non-cash payment operations, with the initiation of opportunities to be included in the SWIFT system; including planning and technical analyses of processes to cooperate with the GFTC LLC - SWIFT Service Bureau.

During the second half of 2023, immediately upon establishment of the operations direction, a centralised back office was formed, which combines credit and non-credit transactions, the credit administration direction, and non-cash payment transactions. Once its main functional areas were determined, the back office was staffed with strategically important human resources.

With the support of the back office, a project to consolidate the management of credit documentation was launched; this encompassed the centralised management and archiving of credit documentation for all branches. By the end of 2023, 14 branches participated in this new project.

Furthermore, back-office operations were thereafter also identified, under which consolidation of operations from different directions, analysing efficiency and the initiation of change were each planned.

Under the initiative of the Cash Management Department, issues related to the process of managing cash and other valuables after the banking transformation is implemented. The internal cash collection development strategy for 2024 and a plan for the arrangement of cash centres were both moreover defined.

In line with Crystal's organisational development, it became necessary to extend head office space in Tbilisi. This project was implemented with the involvement and support of the Administrative Department.

Information Technologies

Strategic goal is for the company to transform into a microbank. Accordingly, in 2023, Crystal continued to take steps on this path with the development of the core banking system and the credit system, together with the introduction of new services, software, and products. Digital transformation strategy was likewise updated, a long-term plan was defined, and all projects and processes required for digital transformation were agreed upon. Software systems, were regularly updated and adjusted to the new regulations. Additionally, major infrastructural improvements and optimisations were implemented. Development of business continuity processes and the testing of critical systems were successfully undertaken.

Information Technology Infrastructure and Operations

In 2023, the company implemented the change management system, which fully complies with the international standard. Introduction of this standard was designed to improve the process of change in information systems and, accordingly, to reduce the risks caused by such a transformation.

In the second half of 2023, to improve business continuity, an optical fiber channel was launched for data exchanging data between the main and backup data centres. It made possible to transfer large volumes of data between these data centres, and to store copies of the company's vital services within the backup data centre.

In 2023, foundation was laid for a new DevOps approach – a modern methodology that helps accelerate the process of creating and implementing software systems and improving their quality. Crucially, the implementation of DevOps will allow the company to respond quickly to arising business needs.

Project Management and Business Analysis

In 2023, the company successfully implemented 50 projects of various scale and complexity – including integration with the Western Union remittance system; assigning the appropriate AML risk to clients; Rubyx system for generating loan offers for customers; improving the credit scoring module; introducing SMS receipts; receiving and sending information on remittances to Credit Info; automating the course of remittances; study, analyses and updating of processes within the company; and development of the initial version of the loan application registration module, amongst others.

The steps taken in terms of automating the existing business processes are equally worth mentioning. Together with the aforementioned projects, active work has also been proceeding on those developments necessary for the main goal of transformation into a microbank.

Information System Security

In 2023, Crystal implemented a Privileged Access Management (PAM) system, which ensures more effective monitoring of privileged users, granting them secure access to systems of the organisation.

Implementation of the SIEM (Security Information & Event Monitoring) system began. This will significantly increase organisational readiness in response to cybersecurity incidents.

An information security awareness raising programme was conducted for various target audiences. In terms of improving awareness, experimental cyberattacks and the testing of Crystal employees were also organised.

The scope of the annual cybersecurity risk assessment has strengthened to include a cloud services risk assessment as well as DevOps process-related risk management. As part of the risk assessment, risk management action plans were prepared.

In 2023, the organisation's Microsoft Secure Score level increased significantly and reached 60% (this indicator reached around 45% in 2022), this therefore ensures that the organisation is much more flexible in terms of the prevention and detection of cyberattacks.

In 2023, the existing information security documents were updated; while a new information security strategy and accompanying policies and procedures were all developed and approved.

Software Development

During the year, important software was developed for the company within the IT Development Department. The software includes a new credit decision-making system, which ensures the automatic processing of loan applications. This system allows the company to remove the need for manual involvement in processes, enhancing the time and quality of application processing.

Up to 170 new reports were developed, a credit file administration system was introduced, and a module for requesting information on client remittances from the Credit Info database was developed. A remote interviewing platform of clients was also introduced, which permits the company to process applications in optimal time and save significantly on operational costs.

Software Quality Assurance

Multiple iterations of testing of the operations and credit systems were performed.

Assessing the quality of the existing core systems and all new modules in the company, as well as monitoring the quality of products, was also constantly ongoing.

In terms of software quality management, launching the testing automation process can certainly be considered an important achievement.

In line with work on existing and new products, testing of the products and software required for the microbank transformation continued intensively throughout the year.

Governance Statement

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

This report has been drafted in line with the Law of Georgia on Accounting, Auditing and Reporting, and with the specific disclosure requirements of the UK Corporate Governance Code (see Annex 1).

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

Supervisory Board

Crystal is headed by the effective supervisory board, which collectively is responsible for the long-term success of the company.

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

Chair

The roles of the Board and of the Chair are clearly distinguished from the responsibilities of the Management Team. The Chair is responsible for the leadership of the Board and ensuring its effectiveness in all aspects. There have been no significant changes made to the commitments of Archil Bakuradze, the Chair of the Supervisory Board (Georgia), who is a financier, entrepreneur, and the co-founder of Crystal. He serves as Chair of the Board of Crystal Fund, Council Chair of the Microfinance Centre, and participates in the governance of several nonprofit institutions. His commitment to Crystal Fund was reduced due to reduction in the level of programming and replaced by his new role in JSC Lotus Impact Finance, an investment platform promoting the development of microfinance institution in Uzbekistan. The Chair spends more than half of his time working with Crystal, and his role and responsibilities are regulated via respective policies, each approved by the SB. The Chair is appointed by and is accountable to the shareholders. The performance of the Chair is assessed by the company shareholders, based on his peer assessment. Upon the recommendation of the board, the shareholders approve the Chair's remuneration and any changes thereof.

Board Composition

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

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

Activities of the Supervisory Board

In 2023, the SB met twelve times, once in-person and eleven times remotely. The number of each SB committee meeting in 2023 is as follows:

- Audit Committee 5
- ALCO (Assets and Liabilities) Committee 9
- Risk Committee 4
- E&S Committee 1
- Human Resources and Remuneration Committee 2

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

Support of the Board

The Supervisory Board is supported by the Corporate Secretary, who plays a crucial role in overseeing various governing bodies within the company, including Shareholders, the SB, its committees, and the Management Team. The Corporate Secretary ensures the smooth functioning of meetings, maintains accurate records, and coordinates decision-making processes. Additionally, the Corporate Secretary is involved in developing corporate management regulations and facilitating communication with internal and external stakeholders. The Corporate Secretary supports the SB in fulfilling corporate governance and legal requirements, offering constructive input and recommendations where necessary, participates in evaluation process and assists in onboarding of new members. The Corporate Secretary also contributes to the formation of meeting agendas and documents as per the SB's instructions, compiles various credentials ensuring confidentiality and timely disclosure, and ensures the timely execution of tasks delegated by the Chair, SB members, and senior executives related to corporate management issues.

Corporate Governance

The corporate governance of Crystal exemplifies the highest standards of transparency, accountability, and ethical conduct, ensuring alignment with our strategic vision and long-term objectives.

In 2023, in the framework of banking transformation, we re-appointed the members of Supervisory Board and the Management Team to ensure their compliance with requirements of the normative base for microbanks. The governance standards have been aligned with the requirements of the National Bank of Georgia for microbanks. Currently, Crystal reports against its compliance with the UK Corporate Governance Code, the details of which are provided in Annex 1.

Supervisory Board Members

Archil Bakuradze

Chair – holds the position of Chair of the JSC MFO Crystal Supervisory Board and leads the company's Assets and Liabilities Committee. Archil served as a Council Chair of Microfinance Centre. He is a Chair of the Board of Crystal Fund and serves on the Boards of several non-profit organizations. Through the Chevening Scholarship, from the UK Foreign and Commonwealth Office, Archil received an MBA from Lancaster University's Management School (2004). He is a fellow of the John Smith Trust (2000) and recipient of the international van Heuven Goedhart award from the Dutch Refugee Foundation, Stichting Vluchteling (2003).

George Arveladze

SID – Holds the position of SID in JSC MFO Crystal Supervisory Board. George Arveladze is a Georgian businessman with more than 20 years of extensive experience in banking. Prior to his entrepreneurial involvement in real estate, transportation and energy sectors in Georgia, he served as the Managing Director at TBC, the largest bank in Georgia, covering non-interest income, research and brokerage businesses in the Corporate and Investment Banking arm of the bank. Prior to joining TBC, Mr. Arveladze worked as a CEO of Liberty Bank, Georgia's 3rd largest retail bank with more than 5,300 employees and over 650 branches throughout the country, which he led since 2013 delivering c.200% net profit cumulative annual growth in 2 years, an impressive and strong performance. Prior to his appointment as CEO, Mr. Arveladze served as Deputy CEO in charge of Strategic Projects, Treasury and Private Banking (2009-2011 years) and Deputy CEO, Chief Operating Officer (2011-2013 years). Before returning to Georgia in 2009, he worked in structured product sales at BNP Paribas in London. Prior that, he worked at the National Bank of Georgia. Mr. Arveladze holds an MBA from London Business School.

Matangi Gowrishankar

Independent Member – Ms. Matangi Gowrishankar has over four decades of experience in senior leadership roles in business and HR, both in India and overseas. She currently heads Crystal's Human Resources and Remuneration Committee. She has experience across diverse industries with leading multinational corporations - Standard Chartered Bank, Reebok, GE, and Cummins Inc. Most recently she was with BP plc, (British Oil & Gas major) where her last role was Global Head of Capability Development (Downstream businesses) & Director of the Global Leadership Academy. Matangi is an experienced Independent Director and currently sits on a number of boards in India across diverse industries ranging from financial services, IT and manufacturing companies. A career business & human resources professional, Matangi also has an independent Executive Coaching & Human Resources Consulting practice. She has deep expertise in business processes, and the full spectrum of

Human Resources and Organization Development practice areas. She holds a BA in sociology and a post-graduate degree in Personnel Management and Industrial Relations from XLRI, Jamshedpur a premier business school of India. She is passionate about building high-performance teams and is actively involved in coaching and mentoring top leaders across several organizations.

Jan Dewijngaert

Member –Mr. Jan Dewijngaert is Director Private Equity at Incofin Investment Management, fund manager of agRIF, and has been representing agRIF at the Supervisory Board since 2016. Mr. Dewijngaert has broad private equity experience in acquiring, managing and selling equity stakes in a wide variety of sectors. He executed more than 70 investments and exits in Europe and Asia. Previously, he acted as a Managing Partner, Director Private Equity and Member of the Investment Committee of various private equity funds. Mr. Dewijngaert has extensive Board Member experience in multiple sectors and countries. Currently, besides his Board role at Crystal, he acts as a Board member of Lovcen Banka (Montenegro) and Bank Arvand (Tajikistan) and is a member of the Investment Committee of the Water Access Acceleration Fund.

Robert Kossmann

Independent Member – Robert Kossmann is a well-traveled internationally experienced banker with 33 years of retail and SME banking experience who has worked in 13 different countries throughout Central and Eastern Europe. He currently heads Crystal's Risk Committee. He has spent the last 16 years working in Raiffeisen Bank International from 2004 to 2020 as Deputy Chairman of the Board for Retail/SME banking in Raiffeisen Bank Aval Ukraine and as the Head of SME Risk in Vienna, Austria. In addition to being responsible for Retail and SME banking, Robert was CIO and COO for 3 years. Prior to working at Raiffeisen, Robert was a Senior Developmental Banker working with the EBRD, World Bank, ADB and USAID on restructuring large financial institutions. Robert is currently active as a Fintech Angel Investor and Advisor & Mentor to multiple startups in Ukraine.

Lilit Gharayan

Independent Member – is a financier and has been a member of Crystal's Supervisory Board since July 2018. She currently heads Crystal's Audit Committee. She has extensive experience in leadership as well as holding a consultant position in financial management, risk management and operational management. Since 2015, Ms. Gharayan has been participating in the implementation of SDC, KfW and AFD projects in Georgia and Armenia. She holds an MBA degree with a major in finance from the

American University of Armenia and an MA from Yerevan State University. Ms. Gharayan is a graduate of the ProCredit Management Academy and is a member of ACCA.

Aleem Remtula

Member – is a partner and Head of Private Equity for Developing World Markets (DWM), and Mr. Remtula has been a Board member and shareholder representative for DWM at Crystal since 2011. He currently heads Crystal's E&S Committee. Mr. Remtula started his career in corporate finance at JP Morgan and has nearly 20 years of experience in venture capital and private equity impact investing globally. He holds an MBA from Harvard Business School and a bachelor's degree in economics and finance from Princeton University.

Suma Swaminathan /left company on 15 March 2024/

Alternative Member – As Vice President of Private Equity at Developing World Markets (DWM), Suma Swaminathan has been an alternative Board member since 2020 – DWM's shareholder representative at Crystal. Prior to joining DWM, Suma worked as a Senior Valuation Consultant at Empire Valuation Consultants, a boutique consulting firm in NYC. She has experience leading and managing the valuation of publicly and privately held companies' equity, debt and complex assets or securities for the purposes of potential investments, financial reporting, and corporate planning. She has also worked in technology at Capital One Auto Finance via Infosys Technologies. Suma received her MBA from NYU's Stern School of Business, where she was designated a Faculty Scholar for Social Enterprise, based on her work with weaver cooperative societies within the handloom industry in India. She holds a bachelor's degree in electrical engineering from Osmania University in Hyderabad, India.

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Nino Metreveli

Corporate Secretary – Nino Metreveli, Corporate Secretary at JSC MFO Crystal, initially joined the company in 2018 as Executive Assistant to the Chairman. With a background in teaching and translation, she brings nearly 20 years of diverse work experience, notably spending 18 years in various roles within financial institutions. Since 2019, Nino has been actively engaged in Crystal Fund as a Program Officer under the USAID-funded YES-Georgia program. Her expertise lies in teaching, managing administrative units, overseeing the operations of Boards of Directors, Supervisory Boards, and related Committees, as well as facilitating project coordination. Previously, she held the positions of Head of Secretariat and Corporate Secretary at Bank Constanta from 2008 to 2015. Following that, she transitioned to TBC Bank from 2015 to 2018 with a strong focus on PR and MSME directions. Nino holds a university degree in English language philology and has specialized in PR and communication.

Management Team (Board of Directors)

Ilia Revia

Chief Executive Officer – is the Chief Executive Officer of MFO Crystal. He is an accomplished executive with extensive experience leading large-scale transformation and change management initiatives in banking and IT sectors. He began his career as a web developer in 1998, moving into IT Project Management for a US Law firm in 2001-2006, and Project Manager for TBC Bank in 2007-2009. Joining the Bank of Georgia in 2009, he rose to position of Deputy Chief Information Officer and managed several complex programs, including the acquisition of PrivatBank Georgia and Agile transformation. After joining Crystal in 2nd half of 2019 he has been leading the company's strategic vision, growth, and transformation. Ilia is a certified Project Management Professional (PMP) with graduate degrees in Project Management from George Washington University and in IT and Business Innovation from Jšnkšping University in Sweden, alongside an undergraduate Mathematics degree from the Georgian Technical University.

Davit Bendeliani

Chief Financial Officer – is the Chief Financial Officer (CFO) of Crystal. From August 2004 to 2011 he served as the Financial Manager for Crystal Fund. Prior to which, he managed the finance of CHCA, from April 1997 to July 2004. Mr. Bendeliani holds a degree in Economics from Ivane Javakhishvili Tbilisi State University. He also holds certificates in the treasury management of microfinance organizations, strategic planning and change management, microfinance product development, risk management methodology, internal audit development, human resources management and strategic planning programs.

Melania Kutchukhidze

Chief Business Officer – is the Chief Business Officer of MFO Crystal. She is an established senior executive and management expert, with 15 years of leadership experience in the financial sector, having first served, from 2006-2010, as Head of Retail and Small Business Development at VTB Bank Georgia. From 2010-2015, she was Head of the Network Management Department at Constanta Bank, before taking over the Micro Business Management Team at TBC Bank in Tbilisi, until 2016. She joined Crystal in 2018 as Head of Network Management after her two-year role as Commercial Director for the Lisi Green Urban Project. She was appointed Crystal's Deputy Chief Business Officer in 2019, and Chief Business Officer in May 2020. Melania holds a master's degree in management from VTB Bank Corporate University and an undergraduate degree in Economics and Management from the Georgian Subtropical Business University.

Giorgi Megeneishvili

Chief Risk Officer - Giga has been holding various positions since 2005 and went through an interesting path of development. He made a valuable contribution to the development of the Company by formatting and developing the classical risk management line.
Giga is the certified Risk Manager, Certified International Microfinance Manager (Frankfurt School of Finance and Management) and holds BA in Economic from Akaki Tsereteli Kutaisi State University.

Nino Panjikidze

Chief Operating Officer - Nino Panjikidze, Crystal's Chief Operating Officer since June 2023, brings over 15 years of financial sector experience. Her career journey includes diverse managerial roles at Procredit Bank, overseeing operations, retail control, centralized back office, and product development. Transitioning to Finca Bank, she led banking services and support, including operations, cashless payments, and bank cards. In the past two years, she excelled as an operations manager in the non-banking sector. Nino holds a certified financial manager qualification from the Finance Department of Free University, pursued her master's in business administration at Caucasus University, and earned a bachelor's degree in international relations from the State University of Culture and Arts. Additionally, she completed a comprehensive course in Financial Markets at Yale International University.

Kakha Gabeskiria

Chief Leasing Officer – Kakha Gabeskiria assumed the role of Chief Leasing Officer at Crystal in 2023, following a distinguished career within the company since 2009. His journey within Crystal includes key executive roles such as Chief Credit Officer, Chief Operations Officer, and Chief Business Officer. Notably, from 2020 onwards, he served as CEO of Crystal Leasing, a subsidiary of MFO Crystal. With a solid foundation in the MSME sector, Mr. Gabeskiria has amassed 20 years of managerial experience at Procredit Bank. He holds a BA in Economics from the Georgian Institute of Sub-tropic Agriculture and is certified in Project Management, Business Analysis, HR Management, Product Development, Credit Portfolio Planning and Management, as well as Credit and Operating Risk Management.

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Giorgi Janelidze

CEO, LLC Crystal Consulting – is the Chief Executive Officer of Crystal Consulting. During the last nine years, he has been working in MFO Crystal on different positions and currently is developing as an executive in business consulting. Since 2008 Giorgi has been working in non-governmental organizations and the private sector. He has a background in Microfinance, Marketing, IT, Project Management, and the MSE sector. Giorgi has scaled several startups from business idea to final product. By education, he is an IT specialist and certified Project Manager & Digital Marketeer. Giorgi holds a master’s degree in IT & Economics and currently progressing with PhD.

Committee Reports

The Assets and Liability Committee (ALCO)

The ALCO, including its Chair (the Chair of ALCO), members of the SB, the CEO, the CFO and the CBO, convenes monthly. The purpose of the ALCO is to supervise the assets and liability management process for Crystal, which includes balance and profits, liquidity planning, funding sources, foreign currency mismatches, interest rates, capital adequacy and liquidity risks. The Supervisory Board also examines reports related to macro-economic indicators, market share analysis and business plan implementation. A list of indicators from the annual budget is monitored by the ALCO and may be revised by the Supervisory Board, if required.

Sessions conducted in 2023: 9

Key issues discussed and resolved:

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

The Environmental and Social Committee

Committee Chair's letter

Dear Shareholders and Stakeholders,

We are pleased to report that 2023 was another year of significant impact for Crystal and, in particular, for Crystal's Environmental and Social (E&S) Committee. Under the able leadership of Maya Kobalia, Head of the Company's E&S Department, Crystal continued to support entrepreneurs in the country and took significant strides in measuring and on reporting the impact of its activities. Crystal had several notable achievements during the year, including:

- *The company issued the first gender bond in the region, under the guidelines of the International Capital Market Association (ICMA). With the support of the ADB and the EBRD, Crystal's pioneering transaction will help deepen Georgia's capital markets by raising awareness about thematic bonds aligned to global standards, while supporting access to finance for female entrepreneurs.*
- *For the first time, Crystal engaged a 3rd party, 60_Decibels, to conduct an independent quantitative analysis in order to benchmark its client-level impact against its peers. With support from Proparco, this inaugural implementation of the 60_Db analysis in Georgia*

highlighted Crystal among the top performers in customer rights protection, quality of life and business income improvements for clients across MFOs and banks worldwide.

- *For the third time since 2019, Crystal won the Corporate Sustainability Award, hosted by the UN Global Compact Georgia Network for work in women's empowerment and reducing inequalities.*
- *For the fifth consecutive year, Crystal was honoured to be a recipient of the Best Annual Report and Transparency Award (BARTA), which underscores Crystal's ongoing commitment to transparent reporting.*

Each of these efforts culminated in the submission of the micro-bank license to the National Bank of Georgia at the end of 2023. Looking ahead, we are optimistic that obtaining a banking license will better position us to serve the financial inclusion needs of our clients and take the necessary steps to diversify product offerings and expand distribution channels to serve clients across Georgia, particularly those in the agricultural sector and those engaged in MSME activities.
Sincerely,
Aleem Remtula

The objective of the Committee is to define the company's environmental and social mission objectives and to supervise their implementation. The mandate of the Committee is to outline the principles and activities of the company's corporate environmental and social responsibility, consumer protection and responsible lending practices, as well as to monitor the respective implementation. The Committee therefore helps the management and Supervisory Board focus on environmental and social responsibility.

Sessions conducted in 2023: 1

Key issues discussed and resolved:

- Current projects and activities
- Environmental impact assessment
- ESG risk management
- Environmental and social management and recommendations

The HR, Compensation and Remuneration Committee

Committee Chair's letter

Dear Shareholders and Stakeholders,

Over the past fiscal year, we are pleased to report significant progress in various aspects of our organisation. The HR Committee is particularly delighted to share positive developments regarding our employee retention efforts.

Our attrition rate saw a notable improvement, decreasing from 27.12% to 18.18% since the previous year. This achievement underscores our commitment to fostering a supportive and engaging work environment. Furthermore, we take pride in the stability of our leadership team, recognising its pivotal role in driving the organisation forward.

As we embark on the journey towards securing a banking license, notably we have allocated additional resources to bolster our training programmes. This investment aims to equip our staff with the necessary skills to thrive in an evolving industry landscape.

Furthermore, our dedication to ensuring fair compensation practices remains steadfast. We actively participate in market comparator studies to benchmark our compensation packages, while making adjustments as necessary to maintain competitiveness and equity.

Looking ahead, we are focused on strengthening our organisation through initiatives such as succession planning, performance management and talent development. These efforts are essential to fortifying our position in the market and sustaining long-term growth.

We extend our sincere gratitude to our stakeholders for their continued support and partnership as we navigate these exciting opportunities and challenges together.

Sincerely,

Matangi Gowrishankar

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

Sessions conducted in 2023: 2

Key issues discussed and resolved:

- Performance Management Process design
- Market compensation survey detailed analysis
- Recommendations for compensation review - budget requirements
- Updates from the sales force effectiveness project
- Branch Manager review
- Standard organization update in terms of total employees, attrition, and key HR metrics.
- Action taken report.
- HR demographics/attrition and acquisition analysis
- Compensation benchmark and initial recommendations
- High level recommendations for performance management system enhancement
- Discussion on training and development budget

The Audit Committee

Committee Chair's letter

Dear Shareholders and Stakeholders,

Throughout 2023 the Audit Committee engaged in regular discussions with Internal Audit regarding general audit issues, the defined audit areas, and the findings made during audits alongside the steps taken to make improvements in response to these findings. The focal point of the Committee's work was to regularly address the monitoring of the Management Board's remediation of critical internal audit findings, as a result of which the number of critical findings was reduced considerably.
The Committee regularly addressed and monitored the effectiveness of Crystal control functions throughout 2023.

The cooperation of the Audit Committee and other committees (e.g. Risk Committee) was also further intensified.

Additionally, in 2023 the Audit Committee worked towards strengthening the methodological framework of internal control functions, and specifically Internal Audit, in order to fully comply with the requirements of the banking regulatory framework in anticipation of obtaining a micro-banking license in 2024.

Sincerely,

Lilit Gharayan

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

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

In broad terms, the audit committee reviews each of the items noted above and provides the board with independent advice and guidance regarding the adequacy and effectiveness of management's practices and potential improvements to those practices.

Sessions conducted in 2023: 5

Key issues discussed and resolved:

- Audit results
- Updated report on deficiencies found during the audit process
- Annual internal audit plan and its progress
- Review and approve audit policies and procedures
- Selection of External Auditor

The Risk Committee

Committee Chair's letter

Dear Stakeholders and Shareholders,

We are pleased to provide an overview of the Risk Committee's activities over the past year, highlighting significant progress and the key areas of focus.

Throughout the past 12 months, the Risk Committee has made substantial strides in various aspects of risk management. We have diligently reviewed and refined our policies, procedures, models and reporting mechanisms to ensure effectiveness and alignment with our strategic objectives.

One notable challenge we have encountered is the abundance of data, and the corresponding imperative to translate this data into informed decisions and problem-solving strategies. To address this, we are exploring innovative approaches to data analyses and leveraging technology to enhance our decision-making capabilities.

A crucial aspect of our risk management framework is the continuous evaluation of risk-reward calculations. We are committed to ensuring that our models accurately reflect market dynamics and are resilient enough to withstand stress scenarios.

Centralised credit risk management remains a priority, and efforts to finalise this initiative are underway. We recognise the importance of agility in adapting our models to changing market conditions and are actively assessing their resilience and flexibility.

Moreover, our ability to process large quantities of data, that which impacts our models, is paramount. We are thus investing in advanced data processing capabilities to enhance efficiency and accuracy in our risk assessments.

In tandem with risk management, compliance and anti-money laundering (AML) efforts are critical. We are harnessing technology to handle increasing volumes and to enhance our capabilities in these areas.

Finally, we are focused on elevating collections efficiency and productivity to the next level of maturity. By optimising our processes and leveraging technology, we aim to enhance our ability to manage credit risk effectively.
We extend our gratitude to our stakeholders for their continued support and collaboration as we navigate the complexities of risk management in today's dynamic environment.

Sincerely,
Robert Kossmann

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

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

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

During the 1st meeting of the new Risk Committee, the Management presented its new Risk Management Framework, the main principles Credit Risk Management, AML & Compliance, Operational Risk Management, and the Risk Management KPIs and Risk Appetite indicators. Decisions were thereafter made to start a new collections project and update the Credit Policy and Risk Appetite documents to support the organization in 2023.

Sessions conducted in 2023: 4

Key issues discussed and resolved:

- Overview of Risk Management indicators and monitoring of triggers
- 2024 Risk Strategy Update and CRO Statement for Existing and Future Risk Appetite
- Approval of Risk Documents, including Credit Policy, Risk Appetite Policy Statement, Risk Management Framework
- Review of centralization projects
- Control Department's Investigation results
- Management ALCO development plan (includes IRR Model)
- Whistleblowing event and actions taken
- IAD quarterly reports
- Compliance with risk management framework and risk appetite

- Risk Strategy 2023-2024
- Collection Strategy
- IRR Risk Analysis and proposals
- Portfolio quality trend and concentrated credit risk
- Credit scoring project update and underwriting process development action plan
- Compliance, AML, financial crimes (including material breaches in AML, anti-bribery, and corruption) and fraud (internal and external)
- Update the information of collection process review (tender results and other issues)
- 2023-year plans
- CAR breach and action plan

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Ilia Revia

Chief Executive Officer

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Archil Bakuradze

Chairman of the Supervisory Board

May 15, 2024

JSC Microfinance Organization Crystal

Consolidated and Separate Financial Statements,
together with Independent Auditor's Report
For the Year Ended December 31, 2023

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS AND MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2023

Management and supervisory board are responsible for the preparation of the consolidated and separate financial statements that present fairly the consolidated and separate financial position of Joint Stock Company Microfinance Organization Crystal (the "Company") and its subsidiary Crystal Consulting LLC (collectively - the "Group") as at December 31, 2023 the results of their operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

Management and supervisory board are also responsible for the preparation of the management report in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

In preparing the consolidated and separate financial statements, and management report management and supervisory board are responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern;
- Disclosing the information in the management report as required by the Law of Georgia on Accounting, Reporting and Auditing;
- Preparation of the management report in consistence with the consolidated and separate financial statements.

Management and supervisory board are also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the consolidated and separate financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with Georgian legislation;
- Taking such steps that are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated and separate financial statements, and management report for the year ended December 31, 2023 were authorized for issue on May 15, 2024 by the Board of Directors and the Supervisory Board of the Company.

Ilia Revia	Archil Bakuradze
Chief Executive Officer	Chairman of the Supervisory Board

May 15, 2024

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Independent auditor's report

To the Supervisory Board and the Board of Directors of Joint Stock Company Microfinance Organization Crystal

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Joint Stock Company Microfinance Organization Crystal (the "Company) which comprise the consolidated and separate statements of financial position as at 31 December 2023, and the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including material accounting policy information.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the* consolidated and separate financial *statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated and separate 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.

Other matter

The consolidated and separate financial statements of the Company as at and for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those financial statements on 25 May 2023.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

Key audit matter	How our audit addressed the key audit matter
Measurement of expected credit losses on loans to customers	
Assessment of expected credit losses ("ECL") on loans to customers based on the requirements of IFRS 9 Financial Instruments ("IFRS 9") is a key area of management's judgment. Assessment of the ECL is mostly impacted by: ▸ Modelling assumptions used to build the models for calculating the expected credit losses (ECL). ▸ Allocation of loans to customers to stages 1, 2 or 3 using criteria set in accordance with IFRS 9. ▸ Inputs and assumptions used to estimate the impact of multiple economic scenarios. ▸ Estimation of probability of default (PD), loss given default (LGD) and exposure at default (EAD). The use of different models and assumptions can lead to significantly different estimates of ECL on loans to customers. Due to the significance of the carrying amount of loans to customers for the Company's financial position, as well as the complexities and judgments associated with the assessment of the ECL, we considered this area one of the key audit matters. IFRS 9 requires the reporting entity to provide detailed disclosures around the policies and procedures used to estimate ECL. Information on ECL is disclosed in Notes 14 and 30 to the consolidated and separate financial statements.	We obtained an understanding of the ECL process and with support of our specialists we evaluated the methodology developed by the Company. We focused on the following areas during our audit: ▸ Evaluating credit risk models and assumptions used to estimate key parameters in determining ECL on a portfolio basis. With the support of our specialists, we evaluated underlying statistical models, key inputs and assumptions used and assessed incorporation of forward-looking information in the calculation of ECL and we tested managements calculation of impairment. ▸ Assessing the criteria applied by the Company in regard to the staging and reperforming staging allocation as at 31 December 2023. ▸ Performing testing of key inputs of the ECL model, such as data used for PD, EAD and LGD calculation on a sample basis. ▸ Evaluating financial statements disclosures around ECL.

Building a better working world

Recognition of interest income

Interest income on loans to customers represents major revenue streams for the Company. The Company's revenue processes rely on both IT and manual inputs and controls.

Significance of this revenue stream and risks of material misstatements arising from human or IT errors or manipulation within respective revenue recognition processes make the recognition of interest income one of the key audit matters.

Information related to revenue recognition is disclosed in Notes 2 and 6 to the consolidated and separate financial statements.

We analysed revenue recognition policies. Focusing on interest on credit impaired, recovered, modified assets and transaction costs.

We assessed the design and implementation and tested the operating effectiveness of the internal controls over interest income calculation and recognition.

We tested interest income calculation with reference to monthly gross carrying values and their respective interest rates and compared it to interest income recognized in the books for the year ended 31 December 2023.

We recalculated transaction cost deferral adjustments, which are calculated manually by the Company.

We recalculated effect of modification regarding the loan portfolio restructured as a result of legal proceedings.

We also assessed Company's disclosures on interest income.

Building a better working world

Other information included in Company's 2023 Annual Report

Other information consists of the information included in Company's 2023 Annual Report, other than the consolidated and separate financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated and separate financial statements does not cover the Annual Report and we do not express any form of assurance conclusion thereon in our report on the audit of the consolidated and separate financial statements.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Supervisory Board for the consolidated and separate financial statements

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

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

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Supervisory Board 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.

We also provide Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report in accordance with the requirements of Article 7, paragraph 10 of the Georgian Law on Accounting, Reporting and Auditing

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Annual Report for the financial year for which the consolidated and separate financial statements are prepared is consistent with the consolidated and separate financial statements; and
- The Annual Report includes the information required by Article 7 of the Georgian Law on Accounting, Reporting and Auditing and complies with respective regulatory normative acts.

The partner in charge of the audit resulting in this independent auditor's report is Ruslan Khoroshvili.

Ruslan Khoroshvili (SARAS-A-615243)

On behalf of EY LLC (SARAS-F-855308)

15 May 2024

Tbilisi, Georgia

JSC MICROFINANCE ORGANIZATION CRYSTAL

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2023
(in thousands of Georgian Lari)

	Notes	2023	2022 (restated)[1]
Interest income calculated using EIR method	6	120,501	105,910
Other interest income	6	5,021	3,626
Interest expense	6	(42,558)	(36,288)
Net interest income before impairment losses		**82,964**	**73,248**
Impairment losses on interest bearing assets	14,15	(9,388)	(7,699)
Impairment losses on other assets		(124)	(274)
Net interest income		**73,452**	**65,275**
Net loss on financial assets and liabilities at fair value through profit or loss	13	(10,030)	(17,389)
Net foreign exchange gain	7	5,184	5,547
Fee and commission income	8	1,182	930
Fee and commission expense		(240)	(374)
Other income	9	1,092	356
Net non-interest expenses		**(2,812)**	**(10,930)**
Operating income		**70,640**	**54,345**
Personnel expenses		(34,259)	(29,780)
Depreciation and amortization expenses	16,17,18	(6,802)	(6,850)
Other operating expenses	10	(12,301)	(10,636)
Profit before income tax		**17,278**	**7,079**
Income (expense)/benefit	11	(4,035)	232
Net profit for the year		**13,243**	**7,311**
Other comprehensive income		-	-
Total comprehensive income for the year		**13,243**	**7,311**

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Ilia Revia
Chief Executive Officer

Archil Bakuradze
Chairman of the Supervisory Board

May 15, 2024

The notes on pages 71-134 form an integral part of these consolidated and separate financial statements.

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[1] Corrections/Reclassifications to the amounts in prior financial statements have been reflected in the comparative periods of the current period financial statements, as outlined in Note 4.

JSC MICROFINANCE ORGANIZATION CRYSTAL

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2023
(in thousands of Georgian Lari)

	Notes	2023	2022 (restated)[2]
Interest income calculated using EIR method	6	120,501	105,910
Other Interest Income	6	5,021	3,626
Interest expense	6	(42,558)	(36,288)
Net interest income before impairment losses		**82,964**	**73,248**
Impairment losses on interest bearing assets	14,15	(9,388)	(7,699)
Impairment losses on other assets		(124)	(274)
Net interest income		**73,452**	**65,275**
Net loss on financial assets and liabilities at fair value through profit or loss	13	(10,030)	(17,389)
Net foreign exchange gain/(loss)	7	5,186	5,549
Fee and commission income	8	1,183	930
Fee and commission expense		(240)	(374)
Other income	9	553	121
Net non-interest expenses		**(3,348)**	**(11,163)**
Operating income		**70,104**	**54,112**
Personnel expenses		(33,815)	(29,491)
Depreciation and amortization expenses	16,17,18	(6,779)	(6,796)
Other operating expenses	10	(12,117)	(10,612)
Profit before income tax		**17,393**	**7,213**
Income tax benefit/(expense)	11	(4,035)	232
Net profit for the year		**13,358**	**7,445**
Other comprehensive income		-	-
Total comprehensive income for the year		**13,358**	**7,445**

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Ilia Revia
Chief Executive Officer

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Chairman of the Supervisory Board

May 15, 2024

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[2] Corrections/Reclassifications to the amounts in prior financial statements have been reflected in the comparative periods of the current period financial statements, as outlined in Note 4.

JSC MICROFINANCE ORGANIZATION CRYSTAL

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2023
(in thousands of Georgian Lari)

	Notes	December 31, 2023	December 31, 2022 (restated) [3]
ASSETS			
Cash and cash equivalents	12	8,253	27,812
Financial assets at fair value through profit or loss	13	816	-
Assets held for sale		14	197
Loans to customers	14	431,198	387,752
Net investments in leases	15	12,419	9,841
Current income tax asset	11	-	699
Right-of-use assets	16	9,481	8,152
Property and equipment	17	3,987	3,972
Intangible assets	18	4,263	4,147
Deferred tax assets	11	1,164	3,305
Other assets	19	8,929	6,815
Total assets		**480,524**	**452,692**
LIABILITIES			
Financial liabilities at fair value through profit or loss	13	-	8,032
Dividends payable	25	997	997
Current income tax liability	11	495	-
Lease liability	16	9,689	8,121
Promissory notes	20	1,330	-
Debt securities issued	21	26,406	-
Borrowed funds	22	332,303	342,923
Subordinated debt	23	16,867	13,576
Other liabilities	24	13,682	12,534
Total liabilities		**401,769**	**386,183**
EQUITY			
Share capital	25	3,635	3,635
Share premium	25	22,110	22,110
Retained earnings		53,010	40,764
Total equity		**78,755**	**66,509**
Total liabilities and equity		**480,524**	**452,692**

Ilia Revia
Chief Executive Officer

Archil Bakuradze
Chairman of the Supervisory Board

May 15, 2024

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[3] Corrections/Reclassifications to the amounts in prior financial statements have been reflected in the comparative periods of the current period financial statements, as outlined in Note 4.

JSC MICROFINANCE ORGANIZATION CRYSTAL

SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2023
(in thousands of Georgian Lari)

	Notes	December 31, 2023	December 31, 2022 (restated)[4]
ASSETS			
Cash and cash equivalents	12	8,244	27,785
Financial assets at fair value through profit or loss	13	816	-
Assets held for sale		14	197
Loans to customers	14	431,198	387,752
Net investments in leases	15	12,419	9,841
Current income tax asset	11	-	699
Right-of-use assets	16	9,481	8,152
Property and equipment	17	3,980	3,968
Intangible assets	18	4,173	4,035
Deferred tax assets	11	1,164	3,305
Investment in a subsidiary	19	472	340
Other assets		8,889	6,815
Total assets		**480,850**	**452,889**
LIABILITIES			
Financial liabilities at fair value through profit or loss	13	-	8,032
Dividends payable	25	997	997
Current income tax liability	11	495	-
Lease liability	16	9,689	8,121
Promissory notes	20	1,330	-
Debt securities issued	21	26,406	-
Borrowed funds	22	332,303	342,923
Subordinated debt	23	16,867	13,576
Other liabilities	24	13,682	12,520
Total liabilities		**401,769**	**387,166**
EQUITY			
Share capital	25	3,635	3,635
Share premium	25	22,110	22,110
Retained earnings		53,336	40,975
Total equity		**79,081**	**66,720**
Total liabilities and equity		**480,850**	**452,889**

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Ilia Revia
Chief Executive Officer

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May 15, 2024

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[4] Corrections/Reclassifications to the amounts in prior financial statements have been reflected in the comparative periods of the current period financial statements, as outlined in Note 4.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2023
(in thousands of Georgian Lari)

	Notes	Share capital	Share premium	Retained earnings	Total
January 1, 2022		**3,635**	**22,110**	**34,450**	**60,195**
Total comprehensive income for the year (restated)[5]		-	-	7,311	7,311
Dividends declared	25	-	-	(997)	(997)
December 31, 2022 (restated)[5]		**3,635**	**22,110**	**40,764**	**66,509**
Total comprehensive income for the year		-	-	13,243	13,243
Dividends declared	25	-	-	(997)	(997)
December 31, 2023		**3,635**	**22,110**	**53,010**	**78,755**

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Ilia Revia
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Chairman of the Supervisory Board

May 15, 2024

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[5] Corrections/Reclassifications to the amounts in prior financial statements have been reflected in the comparative periods of the current period financial statements, as outlined in Note 4.

JSC MICROFINANCE ORGANIZATION CRYSTAL

SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2023
(in thousands of Georgian Lari)

	Notes	Share capital	Share premium	Retained earnings	Total
January 1, 2022		**3,635**	**22,110**	**34,527**	**60,272**
Total comprehensive income for the year (restated)[6]		-	-	7,445	7,445
Dividends declared	25	-	-	(997)	(997)
December 31, 2022 (restated)[6]		**3,635**	**22,110**	**40,975**	**66,720**
Total comprehensive income for the year		-	-	13,358	13,358
Dividends declared	25	-	-	(997)	(997)
December 31, 2023		**3,635**	**22,110**	**53,336**	**79,081**

Ilia Revia
Chief Executive Officer

Archil Bakuradze
Chairman of the Supervisory Board

May 15, 2024

The notes on pages 71-134 form an integral part of these consolidated and separate financial statements.

[6] Corrections/Reclassifications to the amounts in prior financial statements have been reflected in the comparative periods of the current period financial statements, as outlined in Note 4.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
(in thousands of Georgian Lari)

	Notes	2023	2022 (restated)[7]
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		17,278	7,079
Adjustments for:			
Net loss on financial assets and liabilities at fair value through profit or loss	13	10,030	17,389
Depreciation and amortization expenses	16,17,18	6,802	6,850
Interest income	6	(120,501)	(105,910)
Other interest income	6	(5,021)	(3,626)
Interest expenses	6	42,558	36,288
Impairment losses on interest bearing assets	14,15	9,388	7,699
Impairment losses on other assets		124	274
Net foreign exchange gain	7	(3,814)	(20,846)
Loss on disposal of property and equipment		2	17
Gain on lease cancellations	16	-	(5)
Cash outflow from operating activities before changes in operating assets and liabilities		**(43,154)**	**(54,791)**
Changes in operating assets and liabilities:			
Net (increase) in financial assets/net (decrease) in financial liabilities at fair value through profit or loss		(16,170)	(8,905)
Increase in loans to customers		(52,148)	(45,782)
Increase in investments in leases		(2,016)	(4,309)
Decrease/(Increase) in assets held for sale		183	(197)
Increase in other assets		(2,245)	(2,720)
Increase in other liabilities		1,168	2,345
Net changes in operating assets and liabilities		**(71,228)**	**(59,568)**
Interest received		120,055	104,237
Other interest received		4,213	3,626
Interest paid		(41,290)	(34,823)
Income tax paid		(700)	(3,197)
Net cash used in operating activities		**(32,104)**	**(44,516)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	17	(1,638)	(1,739)
Purchases of intangible assets	18	(1,563)	(955)
Proceeds from sale of property and equipment	17	-	142
Net cash used in investing activities		**(3,201)**	**(2,552)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from promissory notes	20	1,313	-
Proceeds from debt securities issued	21	25,000	-
Proceeds from borrowed funds	22	166,927	238,304
Proceeds from subordinated debt	23	3,146	-
Repayments of borrowed funds	22	(176,620)	(175,210)
Repayments of lease liabilities	16	(3,392)	(3,560)
Dividends paid	25	(1,005)	(996)
Net cash generated from financing activities		**15,369**	**58,538**
Net (decrease)/increase in cash and cash equivalents		**(19,936)**	**11,470**
Effect of exchange rate changes on the balance of cash held in foreign currencies		377	(2,785)
Cash and cash equivalents as at the beginning of the year	12	27,812	19,127
Cash and cash equivalents at the end of the year	12	**8,253**	**27,812**

Ilia Revia
Chief Executive Officer
Board

Archil Bakuradze
Chairman of the Supervisory

May 15, 2024

The notes on pages 71-134 form an integral part of these consolidated and separate financial statements.

[7] Corrections/Reclassifications to the amounts in prior financial statements have been reflected in the comparative periods of the current period financial statements, as outlined in Note 4.

JSC MICROFINANCE ORGANIZATION CRYSTAL

SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
(in thousands of Georgian Lari)

	Notes	2023	2022 (restated)[8]
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/ before income tax		17,393	7,213
Adjustments for:			
Net loss on financial assets and liabilities at fair value through profit or loss	13	10,030	17,389
Depreciation and amortization expenses	16,17,18	6,779	6,796
Interest income	6	(120,501)	(105,910)
Other interest income	6	(5,021)	(3,626)
Interest expenses	6	42,558	36,288
Impairment losses on interest bearing assets	14,15	9,388	7,699
Impairment losses on other assets		124	274
Net foreign exchange gain	7	(3,816)	(20,848)
Loss on disposal of property and equipment		2	17
Gain on lease cancellations	16	-	(5)
Cash outflow from operating activities before changes in operating assets and liabilities		**(43,064)**	**(54,713)**
Changes in operating assets and liabilities:			
Net (increase) in financial assets/net (decrease) in financial liabilities at fair value through profit or loss		(16,170)	(8,905)
Increase in loans to customers		(52,148)	(45,782)
Increase in investments in leases		(2,016)	(4,309)
Decrease/(Increase) in assets held for sale		183	(197)
Increase in other assets		(2,205)	(2,720)
Increase in other liabilities		1,182	2,359
Net changes in operating assets and liabilities		**(71,174)**	**(59,554)**
Interest received		120,055	104,237
Other interest received		4,213	3,626
Interest paid		(41,290)	(34,823)
Income tax paid		(700)	(3,197)
Net cash used in operating activities		**(31,960)**	**(44,424)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in a subsidiary		(132)	(68)
Purchases of property and equipment	17	(1,633)	(1,741)
Purchases of intangible assets	18	(1,563)	(979)
Proceeds from sale of property and equipment	17	-	142
Net cash used in investing activities		**(3,328)**	**(2,646)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from promissory notes	20	1,313	-
Proceeds from debt securities issued	21	25,000	-
Proceeds from borrowed funds	22	166,927	238,304
Proceeds from subordinated debt	23	3,146	-
Repayments of borrowed funds	22	(176,620)	(175,210)
Repayments of lease liabilities	16	(3,392)	(3,560)
Dividends paid	25	(1,005)	(996)
Net cash generated from financing activities		**15,369**	**58,538**
Net (decrease)/increase in cash and cash equivalents		**(19,919)**	**11,468**
Effect of exchange rate changes on the balance of cash held in foreign currencies		378	(2,785)
Cash and cash equivalents as at the beginning of the year	12	27,785	19,102
Net (decrease)/increase in cash and cash equivalents	12	**8,244**	**27,785**

Ilia Revia
Chief Executive Officer

Archil Bakuradze
Chairman of the Supervisory Board

May 15, 2024

The notes on pages 71-134 form an integral part of these consolidated and separate financial statements.

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1. Organization

JSC Microfinance Organization Crystal ("the Company") was established on August 23, 2007 on the basis of the decision of the Crystal Fund (Board's Resolution #20, August 21, 2007) according to the Georgian Law on Microfinance Organizations dated 18 July 2006 (identification # - 212896570).

On January 26, 2018 the Company established 100% subsidiary – Crystal Consulting LLC. The subsidiary is now gradually starting the operations and its major activities will be business consulting, organizational development, leadership, technical and technological advice and service provision for micro and small entrepreneurs.

The legal address of JSC Microfinance Organization Crystal and Crystal Consulting LLC (the "Group") is 22 Nikea Street, Kutaisi, Georgia.

The supreme governing body of the Group is the General Meeting of Shareholders.

The supervision of the Group's operations is conducted by the Supervisory Board, members of which are appointed by the General Meeting of Shareholders. Daily management of the Group is carried out by the Board of Directors appointed by the Supervisory Board.

The Group objectives are to support and develop micro, small and medium businesses in Georgia, to improve the social and economic conditions of clients by providing them with accessible financial services.

The main activity of the Group is micro lending. The Group's financial products are: individual business loans, agricultural loans, consumer loans, pawnshop loans, housing loans and SME loans.

As at December 31, 2023 the Group has forty-nine branches (2022: fifty branches) around Georgia and the head offices are located in Tbilisi and Kutaisi.

The ownership of the Group as at December 31, 2023 and 2022 is disclosed in Note 25.

The Group does not have an ultimate controlling party.

2. Significant accounting policies

Statement of compliance- These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of consolidation – The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (subsidiaries). Control is achieved when the Company: a) has power over the investee; b) is exposed, or has rights, to variable returns from its involvement with the investee; and c) has the ability to use its power to affect its returns.
Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. When necessary, adjustments are made to the financial statements of subsidiaries to bring

their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Going concern - These consolidated and separate financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. In making this assumption, the management considered the Group's financial position, current intentions, profitability of operations and access to financial resources.

Historical cost convention – These consolidated and separate financial statements have been prepared on the historical cost convention, except for the financial assets and financial liabilities at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair values – Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs for the asset or liability.

Functional and presentation currency - Items included in the consolidated and separate financial statements are measured using the currency of the primary of the economic environment in which the Company and its subsidiary operate ("the functional currency"). Their functional currency is Georgian Lari ("GEL"). The presentational currency of the consolidated and separate financial statements of the Group is the GEL. Financial information presented in GEL is rounded to the nearest thousands, except when otherwise indicated.

Offsetting - Financial assets and financial liabilities are offset and the net amount reported in the consolidated and separate statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Notes to the consolidated and separate financial statements – Notes are disclosed for consolidated financial statements only, since the management believes that there are no material differences between consolidated and separate figures.

The principal accounting policies are set out below.

Segment reporting

Chief operating decision maker evaluates the Group as a single operating segment, based on its reported IFRS results. Majority of the Group's income and assets are located in Georgia. There was no single external counterparty amounting to more than 10% of Group's revenue for 2023 or 2022.

Recognition of interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest method by applying the effective interest rate (EIR). 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 Group 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. Penalty income is included in interest income, as considered compensation of credit risk.
When a financial asset becomes credit−impaired, the Group calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit−impaired, the Group reverts to calculating interest revenue on a gross basis.

For purchased or originated credit−impaired (POCI) financial assets, the Group calculates interest revenue 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.

Financial instruments

Initial recognition of financial instruments

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

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.
If the transaction price differs from fair value at initial recognition, the Group accounts for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss).

- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Financial assets

Classification and subsequent measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss (FVPL), transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

The Group 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;
- Fair value through other comprehensive income (FVOCI);
- FVPL.

Financial liabilities, other than loan commitments are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation option is applied.

All of the Group's financial assets and liabilities are measured at amortized cost, with exception to derivatives which are measured at FVPL.

The Group's financial assets classified into the measurement categories are as following:

Financial assets	Business model	SPPI	Measurement category
Derivative financial assets	Other business model	Cash flows are not solely payments of principal and interest	FVTPL
Cash balances in banks	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Loans to customers	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Other receivables	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described below.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and unrestricted balances in banks with original maturity of less or equal to 90 days and are free from contractual encumbrances. Cash and cash equivalents are carried at amortised cost.

Loans to customers and other receivables

Loans to customers and other receivables included in other assets in the consolidated statement of financial position are non-derivative financial assets measured at amortised cost. Loans to customers and other receivables are initially measured at fair value, adjusted in respect of any transaction costs that are incremental and directly attributable to issue of the financial asset and, for fees received as these are subsequently included in the calculation of the effective interest rate. Subsequently, loans to customers and other receivables are measured at their amortised cost using the effective interest method.

Derivative financial instruments

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

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

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

Investments in subsidiary

A subsidiary is an entity, that is controlled by the Company. Investment in subsidiary is recorded in these separate financial statements at cost less impairment loss, if any.

Net investments in leases

At the commencement of the lease, the lessor recognises a lease receivable in its statement of financial position at an amount equal to the net investment in the lease. Net investment in the lease is the sum of the following items discounted at the interest rate implicit in the lease:

- a. the lease payments receivable by a lessor under a finance lease; and
- b. any unguaranteed residual value accruing to the lessor.

Aside from the principal, interest, disbursement fee and life insurance, lease payments also include amounts covering for the following types of the expenses: property tax, inspection fee, monitoring fee, GPS control.

The rate implicit in the lease is the interest rate set by the lessor in the lease agreement. This is the rate at which the present value of the lease payments and the unguaranteed residual value equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor.

Initial direct costs are incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained.

Initial direct cost are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term.

The lessor reduces the net investment in the lease for payments received. A lessor shall recognise finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor’s net investment in the lease. A lessor aims to allocate finance income over the lease term on a systematic and rational basis. A lessor shall apply the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income.

Impairment

The Group recognises loss allowances for expected credit losses (ECLs) on the financial assets that are not measured at FVTPL. With the exception of purchased or originated credit-impaired (“POCI”) financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset’s EIR.

The Group measures ECL on a collective basis for portfolios of loans that share similar economic risk characteristics.

More information on measurement of ECLs is provided in Note 30, including details on how instruments are grouped when they are assessed on a collective basis.

<u>Credit-impaired financial assets</u>

A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default.

Purchased or originated credit-impaired financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favorable change for such assets creates an impairment gain.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- for financial assets measured at amortised cost and net investments in leases: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the consolidated statement of financial position as the carrying amount is at fair value.
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component.

Information about default definition, significant increase in credit risk and incorporation of forward-looking information is provided in Note 30.

Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan terms is modified in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to other terms.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is deemed substantial, the Group performs derecognition.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance) and accounts for it through the interest income. Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

Derecognition and write off

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

Loans are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Ordinary shares

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

Preferred stock

The holders of preferred stock are entitled to receive dividends at annual interest rate of 10%. Preferred stock is classified as equity, since according to Georgian legislation any promise of dividends is void and based on profit for the year and management decision.

Share premium

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

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Georgian legislation. Dividends in relation to ordinary and preferred shares are reflected as an appropriation of retained earnings in the period when they are declared.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

Other financial liabilities

'Other financial liabilities', including borrowed funds, subordinated debt, debt securities issued, promissory notes and other non-derivative financial liabilities are initially measured at fair value, net of transaction costs.

'Other financial liabilities' are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" above.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Foreign currencies

In preparing the consolidated financial statements, transactions in currencies other than the Company's and its Subsidiary's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	December 31, 2023	December 31, 2022
GEL/1 US Dollar	2.6894	2.7020
GEL/1 Euro	2.9753	2.8844

Property and equipment

Property and equipment is carried at historical cost less accumulated depreciation and any recognized impairment loss, if any.

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the entity, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight-line basis at the following useful lives:

Buildings	30 years
Vehicles	8 years
Furniture	5/10 years
IT equipment	5/7 years
Leasehold improvement	3 to 5 years
Other	4 to 10 years

Leasehold improvements are amortized over the life of the related right-of-use assets. Expenses related to repairs and renewals are charged when incurred and included in the operating expenses unless they qualify for capitalization.
The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful lives range from 5 to 10 years.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.
Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Intangible assets are assessed for impairment when there is an indication that the intangible assets may be impaired.

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. The Group views the repossessed assets as a form of settlement of amounts due under the defaulted loan and that it is an asset acquired and held for sale in the ordinary course of business.

Repossessed assets are initially recognized at fair value and subsequent measured at the lower of cost and fair value less costs to sell.

Taxation

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

<u>Current tax</u>

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

On 12 June 2018, an amendment to the current corporate taxation model applicable to financial institutions, including microfinance organizations and insurance businesses, became effective. The change implied a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings starting from 1 January 2023. On 16 December 2022, an amendment to the corporate tax code was passed into law abolishing the expected transition to taxation on distributed earnings from 1 January 2023. According to the amendment, effective from 1 January 2023, existing taxation rules for financial institutions, including banks, will be maintained. At the same time, the existing corporate tax rate for financial institutions increased from 15% to 20% from 2023 going forward. In addition, with effect from 2023, taxable interest income and deductible ECLs on loans to customers are defined as per IFRS, instead of NBG regulations.

The change had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. As at 31 December 2022, deferred tax assets and liabilities balances have been remeasured, in line with the updated legislation. The change resulted in a material one−off deferred tax charge as previously the Group recognised deferred taxes only to the extent they were expected to realise before 1 January 2023.

As at 31 December 2022, the Group determined that accumulated temporary differences related to gross carrying value of loans to customers would be taxed at 20% at transition, while differences applicable to ECL at 15%.

Deferred tax

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Operating taxes

Georgia also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss and other comprehensive income.

Employee benefits

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is presented as a separate line in the statement of financial position.
The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the ‘Property, Plant and Equipment’ policy.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient.

Starting from 2020, the Group is represented as Lessor as well, whereby it acquires various equipment, machinery, etc. to correspond to prospective clients' needs, leases them out at a contractually determined terms and repayment schedule, and transfers the title to the property under consideration at the successful end of the contractual repayments.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the Group's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other forward-looking information that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Loss allowances for expected credit losses

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

(in thousands of Georgian Lari)

- **Establishing forward-looking scenarios:** When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
  See Note 30 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

- **Significant increase in credit risk:** As explained in note 2, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative, reasonable and supportable information.

- **Probability of default:** PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
  See Note 30 for more details, including analysis of the sensitivity of the reported ECL to changes in PD.

- **Loss Given Default:** LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
  See Note 30 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD.

Fair valuation of financial instruments

As described in Note 28, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 28 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

4. Reclassification of prior year consolidated and separate financial statements

The following reclassifications and corrections have been made to 2022 balances:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2022	As previously reported	Correction of errors		Reclassification	As corrected/ reclassified
		Measurement	Presentation		
Loans to customers (a) (b)	388,795	(564)	(479)	-	387,752
Other assets (a)	6,336	-	479	-	6,815
Total assets	**453,256**	**(564)**	**-**	**-**	**452,692**
Borrowed funds (f)	356,499	-	-	(13,576)	342,923
Subordinated loans (f)	-	-	-	13,576	13,576
Total liabilities	**386,183**	**-**	**-**	**-**	**386,183**
Total equity	**67,073**	**(564)**	**-**	**-**	**66,509**

(in thousands of Georgian Lari)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2022	As previously reported	Correction of errors		Reclassification	As corrected/ reclassified
		Measurement	Presentation		
Interest income (a) (b) (c) (d)	107,853	-	-	(107,853)	-
Interest income calculated using EIR method (a) (b) (c) (d)	-	(693)	(1,250)	107,853	105,910
Other interest income (d)	-	-	3,626	-	3,626
Net interest income before impairment losses	**71,565**	**(693)**	**2,376**	**-**	**73,248**
Impairment losses on interest bearing assets (b) (c) (e)	(6,606)	129	(1,496)	274	(7,699)
Impairment losses on other assets (f)	-	-	-	(274)	(274)
Net interest income	**64,959**	**(564)**	**879**	**-**	**65,274**
Fee & commission income (a) (e)	1,436	-	(506)	-	930
Fee & commission expense (e)	-	-	(374)	-	(374)
Net non-interest expenses	**(10,051)**	**-**	**(879)**	**-**	**(10,930)**
Operating income	**54,909**	**(564)**	**-**	**-**	**54,345**
Profit before income tax	**7,643**	**(564)**	**-**	**-**	**7,079**
NET INCOME FOR THE PERIOD	**7,875**	**(564)**	**-**	**-**	**7,311**

a) In 2022, the Group inappropriately presented certain fees as part of fee and commission income, although the fees were not in scope of IFRS 15 but rather in scope of IFRS 9 (being incremental and directly attributable fees that adjust the initial carrying value of the loans and are included in their effective interest rate). As a result, interest income was understated and fee and commission income was overstated by GEL 879 thousand for 2022. In addition, GEL 479 thousand of respective deferred fee balance was inappropriately presented in other assets, resulting in overstatement of the loans to customers balance and understatement of the other assets balance as at 31 December 2022.

b) As at 31 December 2022, the Group inappropriately measured amortized cost balances for the loans to customers modified during 2022. Amortized cost of the loans to customers as at 31 December 2022 as well as interest income and impairment losses on interest bearing assets recognized by the Group for 2022 were overstated by GEL 564 thousand, GEL 693 thousand and GEL 129 thousand, respectively.

c) The Group inappropriately presented impairment losses of GEL 2,288 in respect of accrued interest on loans written-off during 2022 as reduction of interest income for the period, resulting in an understatement of interest income and impairment losses for 2022. In addition, recoveries of written-off loans in amount of GEL 792 thousand were presented in interest income, instead of reduction of impairment losses, resulting in an overstatement of interest income and impairment losses for 2022.

d) The Group inappropriately presented interest income on net investments in leases under the caption of interest income on interest bearing assets together with interest income on loans to customers and other assets, for which interest revenue is recognized using EIR method. Accordingly, GEL 3,626 thousand was reclassified to other interest income in the consolidated statement of profit and loss and other comprehensive income for 2022 and interest income calculated using EIR method was presented as a separate line item.

(in thousands of Georgian Lari)

e) The Group inappropriately presented on a net basis fee and commission income and expense in the consolidated statement of profit and loss and other comprehensive income for 2022, while correctly disaggregating them in the disclosure notes. The resulting understatement of fee and commission income and expenses in an amount of GEL 374 thousand on the face of consolidated statement of profit and loss and other comprehensive income for 2022 was corrected by presenting them on a gross basis.

f) The Group separately presented certain balances and transactions in 2023 and amended comparative information to conform with current period presentation. The reason for reclassifications was to provide the users with more reliable and relevant information about the effects of transactions on the Group's financial position and financial performance.

The corrections and reclassifications described above did not have material effect on the consolidated statement of financial position as at 1 January 2022 and income tax charge for the year ended 31 December 2022.

The same changes were made to the separate statements of the Company as well, since the restatements did not concern the subsidiary.

Consolidated statement of cash flows for the year ended 31 December 2022 were amended accordingly:

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2022	**As previously reported**	**Correction of errors**		**Reclassification**	**As corrected/ reclassified**
		Measurement	**Presentation**		
Profit before income tax	7,643	(564)	-	-	7,079
Adjustments for:					
Interest income	(107,853)	693	1,250	-	(105,910)
Other interest income	-	-	(3,626)	-	(3,626)
Impairment losses on interest bearing assets	6,606	(129)	1,496	(274)	7,699
Impairment losses on other assets	-	-	-	274	274
Cash outflow from operating activities before changes in operating assets and liabilities	**(53,911)**	**-**	**(880)**	**-**	**(54,791)**
Changes in operating assets and liabilities:					
Increase in loans to customers	(44,894)	129	(1,017)	-	(45,782)
(Increase) / decrease in other assets	(2,241)	-	(479)	-	(2,720)
Net changes in operating assets and liabilities	**(58,201)**	**129**	**(1,496)**	**-**	**(59,568)**
Interest received	105,616	(129)	(1,250)	-	104,237
Other interest received	-	-	3,626	-	3,626
Net cash used in operating activities	**(44,516)**	**-**	**-**	**-**	**(44,516)**

Explanatory notes were amended accordingly for the changes described above.

5. Amendments to IFRSs affecting amounts reported in the consolidated and separate financial statements

The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The following standards/interpretations relevant to the Group's activities that became effective in 2023 had no material impact on the Group's financial position or results of operations:

a) International Tax Reform – Pillar two model Rules – Amendments to IAS 12
b) Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statements 2
c) IFRS 17 Insurance Contracts
d) Definition of Accounting estimates – Amendments to IAS 8
e) Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12, effective from 1 January 2023, narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with right−of−use assets and lease liabilities.

The Group previously had recognize deferred tax assets and liabilities attributable to right−of−use assets and lease liabilities. Accordingly, this did not affect consolidated statement of financial position as at 1 January 2022 and 31 December 2022 or consolidated statement of profit or loss for the year ended 31 December 2022.

<u>Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2</u>

The amendment's aim is to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The Group assessed the impact of the amendment, which has an impact on the disclosures of accounting policies, but did not have an impact on measurement, recognition, and presentation of the Group's financial statements.

The Group revised its disclosure of accounting policies as presented in this note. The revised material accounting policy information focuses on how the Group has applied the requirements of the IFRSs to its own circumstances and includes largely items where the Group chose an accounting policy from one or more options permitted by IFRSs, items subject to significant judgments or estimates, and excludes information that only duplicates or summarizes the requirements of IFRSs, as well as accounting policies about immaterial matters.

IFRS 17 Insurance Contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023. IFRS 17 applies to all types of insurance contracts (i.e., life, non−life, direct insurance, and re−insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The Group evaluated insurance risks associated with its contracts, taking into consideration the scope exclusions for certain products, and concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31 December 2023.

Other amendments and interpretations that apply for the first time in 2023 do not have an impact on the Group's financial statements.

New Accounting Pronouncements

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are not expected to have a material impact on the Group's financial statements. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective:

- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback;
- Amendments to IAS 1: Classification of Liabilities as Current or Non−current;
- Supplier Finance Arrangements − Amendments to IAS 7 and IFRS 7.

The management do not expect that the adoption of the Standards listed above will have a material impact on the consolidated and separate financial statements of the Group in future periods.

(in thousands of Georgian Lari)

6. Net interest income

	2023	2022
Interest income calculated using the EIR method:		
Loans to customers	120,387	105,818
Cash and cash equivalents	114	92
	120,501	**105,910**
Other interest income:		
Net Investments in leases	5,021	3,626
	125,522	**109,536**
Interest expenses		
Borrowed funds	(36,735)	(34,451)
Debt securities issued	(3,860)	-
Subordinated debt	(1,302)	(1,226)
Lease liability	(639)	(611)
Promissory notes	(22)	-
	(42,558)	**(36,288)**
Net interest income	**82,964**	**73,248**

7. Net foreign exchange gain/(loss)

	2023	2022
Net foreign exchange gain	3,814	20,846
Net foreign currency trading income/(expense)	1,370	(15,299)
Net foreign exchange gain/(loss)	**5,184**	**5,547**

8. Fee and commission income

	2023	2022
Fee and commission income		
Money transfers	547	649
Other loan-related services	219	178
Utility payments	44	42
Other commission income	372	61
	1,182	**930**

9. Other income

	2023	2022
Proceeds from technical assistance	500	-
Consulting income - Management Consulting project	387	-
Consulting income - MSME Competencies project	80	65
Consulting income - Women Entrepreneurs project	70	170
Other income	55	121
	1,092	**356**

(in thousands of Georgian Lari)

10. Other operating expenses

	2023	2022
Utilities and communication	1,869	1,828
Legal and other professional services	1,619	802
Software technical support and maintenance	1,285	1,309
Consumables and office supplies	906	870
Taxes other than on income	857	318
Bank charges	792	741
Insurance	742	685
Membership fees	734	659
Fuel and transportation	543	453
Marketing and advertising	533	415
Business trips	414	280
Repairs and maintenance	254	210
Security	245	180
Expense related to short-term leases and low-cost items	190	483
Personnel training and recruitment	176	145
Loss on irrecoverable other assets	97	194
Charity	8	80
Other	1,037	984
	12,301	**10,636**

Auditor's remuneration

Legal and advisory expenses include auditor's remuneration. Remuneration of the Group's auditor for the years ended 31 December 2023 and 2022 comprises:

	2023	2022
Fees for the audit of the Group's annual financial statements for the year ended 31 December	180	143
Expenditures for other professional services	4	8
	184	**151**

Fees and expenditures to other auditors and audit firms in respect of the other professional services comprised GEL 159 thousand (2022: GEL 62 thousand).

11. Taxation

	2023	2022
Current year tax expense	1,894	1,374
	1,894	**1,374**
Movement in deferred tax assets and liabilities due to origination or/and reversal of temporary differences	2,141	(1,606)
Total income tax expense/(benefit)	**4,035**	**(232)**

The applicable Income tax rate is 20% and 15% for the years ended December 31, 2023 and 2022, respectively.

(in thousands of Georgian Lari)

Reconciliation of effective tax rate for the year ended 31 December:

	2023	2022
Profit before tax	**17,278**	**7,643**
Income tax at the statutory rate (2023: 20%; 2022: 15%)	3,456	1,146
Effect of change in tax legislation	-	(1,528)
Other changes	675	-
Non-deductible expenses /(non-taxable income)	(96)	150
Total income tax expense/(benefit)	**4,035**	**(232)**

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at December 31, 2023 and 2022.

Movements in temporary differences during the years ended 31 December 2023 and 2022 are presented as follows:

	January 1, 2023	Recognized in profit or loss	December 31, 2023
Loans to customers	2,652	(2,652)	-
Property and equipment	59	(55)	4
Right-of-use assets	(1,630)	(266)	(1,896)
Intangible assets	255	126	381
Loans and borrowings	(21)	340	319
Lease liability	1,624	314	1,938
Other liabilities	366	52	418
Net deferred tax asset	**3,305**	**(2,141)**	**1,164**

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

(in thousands of Georgian Lari)

12. Cash and cash equivalents

	December 31, 2023	December 31, 2022
Cash on hand	6,811	14,212
Bank balances	1,442	13,600
Total cash and cash equivalents	**8,253**	**27,812**

None of the balances with Group are past due. No loss allowance is recognised for balances with banks due to short-term nature. Group balances include current accounts at banks in Georgia and are used for the purpose of the daily activities of the Group.

As at December 31, 2023 and 2022 the majority of the Group’s cash in banks is with banks rated by Fitch Ratings as B (short-term rating), BB (long-term rating).

13. Financial assets and liabilities at fair value through profit or loss

	December 31, 2023	December 31, 2022
Financial assets at fair value through profit or loss		
Derivative financial assets		
Currency swap contracts	816	-
Financial assets at fair value through profit or loss	**816**	**-**

	December 31, 2023	December 31, 2022
Financial liabilities at fair value through profit or loss		
Derivative financial liabilities		
Currency swap contracts	-	8,032
Financial liabilities at fair value through profit or loss	**-**	**8,032**

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

As at December 31 2023 and December 31 2022 net loss on financial assets and liabilities at fair value through profit or loss of GEL 10,030 thousand and GEL 17,389 thousand, respectively, represent the net impact of these deals on the Groups’ earnings. The amounts include transactions costs, i.e. any fee or interest these hedging instruments have as well as the effect of adjustments to bring them to their fair value.

(in thousands of Georgian Lari)

Currency Swaps

The Group aggregates non-derivative transactions of back to back loans from banks guaranteed by foreign currency deposits placed at the same banks as derivative instruments, due to the fact that the transactions (placement of deposit and taking of the loan) result, in substance, in a derivative. The conclusion is based on the following indicators:

- They are entered into at the same time and in contemplation of one another;
- They have the same counterparty;
- They relate to the same risk;
- There is no apparent economic need or substantive business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction;
- There is an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and future settlement.

	Notional amount	
	December 31, 2023	December 31, 2022
Sell USD buy GEL		
Less than 3 months	33,698	-
Between 3 and 12 months	110,266	134,830
	143,964	**134,830**
Sell USD buy EUR		
Less than 3 months	1,275	2,162
	1,275	**2,162**
Sell USD buy CHF		
Less than 3 months	1,296	-
	1,296	**-**
Sell USD buy GBP		
Less than 3 months	342	-
	342	**-**
Sell GEL buy USD		
Less than 3 months	7,409	-
	7,409	**-**

14. Loans to customers

	December 31, 2023	December 31, 2022
Principal	443,352	400,845
Accrued interest	1,115	669
Less: expected credit losses	(13,269)	(13,762)
Total loans to customers	**431,198**	**387,752**

All loans to customers are measured at amortised cost. The loans to customers are aggregated into homogeneous product groups, whereby loans in each group display similar characteristics, considering their performance, related risks and underlying business processes.

(in thousands of Georgian Lari)

The following table provides information by loans product groups as at December 31, 2023:

	Gross carrying amount	Loss allowance	Carrying amount at amortised cost
Loans to retail customers:			
Micro business loans	120,499	(2,519)	117,980
Agricultural loans	101,590	(4,770)	96,820
Consumer loans	91,643	(2,656)	88,987
Fast instalment loans	52,429	(594)	51,835
SME loans	42,925	(2,349)	40,576
Pawnshop loans	18,933	(78)	18,855
Housing loans	16,448	(303)	16,145
Total loans to customers	**444,467**	**(13,269)**	**431,198**

The following table provides information by loans product groups as at December 31, 2022:

	Gross carrying amount	Loss allowance	Carrying amount at amortised cost
Loans to retail customers:			
Micro business loans	94,253	(2,699)	91,554
Agricultural loans	81,679	(6,091)	75,588
Consumer loans	74,887	(1,648)	73,239
Fast instalment loans	47,569	(371)	47,198
SME loans	44,654	(2,473)	42,181
Pawnshop loans	36,006	(139)	35,867
Housing loans	22,466	(341)	22,125
Total loans to customers	**401,514**	**(13,762)**	**387,752**

(in thousands of Georgian Lari)

Movements in the loan impairment allowance for the year ended December 31, 2023 are as follows:

	2023			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL - not credit- impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	**4,372**	**2,603**	**6,787**	**13,762**
New loans originated	5,480	-	-	5,480
Transfer to 12-month ECL	(4,604)	4,604	-	-
Transfer to lifetime ECL not credit-impaired	(2,012)	(2,939)	4,951	-
Transfer to lifetime ECL credit-impaired	-	(7,271)	7,271	-
Repaid loans	(2,413)	(531)	(3,610)	(6,554)
Sold loans	-	-	(1,776)	(1,776)
Written off for the year	-	-	(14,832)	(14,832)
Recoveries of previously written off	130	67	5,000	5,197
Changes due to change in credit-risk	3,311	5,039	2,779	11,129
Interest income correction	-	-	863	863
Balance at the end of the year	**4,264**	**1,572**	**7,433**	**13,269**

Respective movements in the gross carrying amounts of loans to customers for the year ended December 31, 2023 are as follows:

	2023			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL - not credit- impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	**321,265**	**65,695**	**14,554**	**401,514**
New loans originated	325,729	-	-	325,729
Transfer to 12-month ECL	2,829	(2,829)	-	-
Transfer to lifetime ECL not credit-impaired	(27,606)	27,788	(182)	-
Transfer to lifetime ECL credit-impaired	-	(16,081)	16,081	-
Reclassification (see below)	15,568	(15,516)	(52)	-
Repaid loans	(232,737)	(35,763)	(6,590)	(275,090)
Sold loans	-	-	(1,776)	(1,776)
Written off for the year	-	-	(14,832)	(14,832)
Recoveries of previously written off	130	67	5,000	5,197
Other movements	402	(222)	3,545	3,725
Balance at the end of the year	**405,580**	**23,139**	**15,748**	**444,467**

The Group has reclassified pawnshop loans from Stage 2 to Stage 1 as a result of the change in the approach of initial classification of these loans. The reclassification was not driven by a change in the risk of these loans and had no impact on the related ECL.

(in thousands of Georgian Lari)

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

	2022			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL - not credit- impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	**3,090**	**3,306**	**7,604**	**14,000**
New loans originated	6,525	-	-	6,525
Transfer to 12-month ECL	53	(53)	-	-
Transfer to lifetime ECL not credit-impaired	(4,790)	5,153	(363)	-
Transfer to lifetime ECL credit-impaired	-	(7,655)	7,655	-
Repaid loans	(1,712)	(652)	(4,807)	(7,171)
Sold loans	-	-	(1,257)	(1,257)
Written off for the year	-	-	(13,203)	(13,203)
Recoveries of previously written off	27	98	5,271	5,396
Changes due to change in credit-risk	1,179	2,406	5,176	8,761
Interest income correction	-	-	711	711
Balance at the end of the year	**4,372**	**2,603**	**6,787**	**13,762**

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

	2022			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL - not credit- impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	**288,704**	**61,406**	**11,831**	**361,941**
New loans originated	286,112	-	-	286,112
Transfer to 12-month ECL	1,055	(1,055)	-	-
Transfer to lifetime ECL not credit-impaired	(46,039)	46,639	(600)	-
Transfer to lifetime ECL credit-impaired	-	(18,409)	18,409	-
Repaid loans	(209,240)	(25,760)	(6,471)	(241,471)
Sold loans	-	-	(1,257)	(1,257)
Written off for the year	-	-	(13,203)	(13,203)
Recoveries of previously written off	27	98	5,271	5,396
Other movements	646	2,776	574	3,996
Balance at the end of the year	**321,265**	**65,695**	**14,554**	**401,514**

(in thousands of Georgian Lari)

15. Net investments in leases

Lease payments receivables and their present values – investments in leases, net of expected credit losses as at December 31, 2023 are as follows:

	Due within 1 year	Due between 1 to 5 years	Total
Lease payments receivable	**10,363**	**10,137**	**20,500**
Less: unearned finance income	(649)	(6,991)	(7,640)
Investments in leases	**9,714**	**3,146**	**12,860**
Less: expected credit losses	(331)	(110)	(441)
Net investments in leases	**9,383**	**3,036**	**12,419**

Lease payments receivables and their present values – investments in leases, net of expected credit losses as at December 31, 2022 are as follows:

	Due within 1 year	Due between 1 to 5 years	Total
Lease payments receivable	**8,109**	**8,366**	**16,475**
Less: unearned finance income	(618)	(5,803)	(6,421)
Investments in leases	**7,491**	**2,563**	**10,054**
Less: expected credit losses	(155)	(58)	(213)
Net investments in leases	**7,336**	**2,505**	**9,841**

Movements in the impairment allowance for the year ended December 31, 2023 are as follows:

	2023			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL - not credit- impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	**106**	**9**	**98**	**213**
New assets originated	110	-	-	110
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit-impaired	(242)	242	-	-
Transfer to lifetime ECL credit-impaired	-	(306)	306	-
Assets Repaid	(69)	(2)	(13)	(84)
Assets repossessed	-	-	(18)	(18)
Changes due to change in credit-risk	143	63	14	220
Balance at the end of the year	**48**	**6**	**387**	**441**

(in thousands of Georgian Lari)

Respective movements in the gross carrying amounts for the year ended December 31, 2023 are as follows:

	2023			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL - not credit- impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	**9,033**	**782**	**239**	**10,054**
New assets originated	7,960	-	-	7,960
Transfer to 12-month ECL	(2,599)	2,599	-	-
Transfer to lifetime ECL not credit-impaired	-	(1,781)	1,781	-
Transfer to lifetime ECL credit-impaired	6	-	(6)	-
Assets Repaid	(3,596)	(221)	(40)	(3,857)
Assets repossessed	(777)	(309)	(130)	(1,216)
Other movements	(81)	-	-	(81)
Balance at the end of the year	**9,946**	**1,070**	**1,844**	**12,860**

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

	2022			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL - not credit- impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	**39**	**11**	**54**	**104**
New assets originated	138	-	-	138
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit-impaired	(49)	49	-	-
Transfer to lifetime ECL credit-impaired	-	(42)	42	-
Assets Repaid	(24)	(10)	-	(34)
Assets repossessed	-	-	(60)	(60)
Changes due to change in credit-risk	2	1	23	26
Other movements	-	-	39	39
Balance at the end of the year	**106**	**9**	**98**	**213**

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

	2022			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL - not credit- impaired	**Stage 3** Lifetime ECL – credit-impaired	**Total**
Balance at the beginning of the year	**4,898**	**598**	**270**	**5,766**
New assets originated	7,307	-	-	7,307
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit-impaired	(970)	970	-	-
Transfer to lifetime ECL credit-impaired	-	(513)	513	-
Assets Repaid	(2,202)	(290)	(12)	(2,504)
Assets repossessed	-	-	(1,026)	(1,026)
Other movements	-	17	494	511
Balance at the end of the year	**9,033**	**782**	**239**	**10,054**

(in thousands of Georgian Lari)

The following table provides information by investment sector as at December 31, 2023:

	Gross carrying amount	Loss allowance	Carrying amount
Construction	4,183	(142)	4,041
Trade	2,063	(38)	2,025
Transportation and logistics	1,835	(51)	1,784
Consumer	1,811	(78)	1,733
Service	983	(28)	955
Manufacturing	814	(21)	793
Beauty and healthcare	510	(12)	498
Agriculture	566	(71)	495
Tourism	43	-	43
HoReCa	15	-	15
Real estate development	12	-	12
Science and education	12	-	12
Telecommunications	8	-	8
Other	5	-	5
Net investments in leases	**12,860**	**(441)**	**12,419**

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

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

(in thousands of Georgian Lari)

16. Right-of-use assets and Lease liabilities

Buildings and offices are represented by the Group's branch network, rented around the country; whereas vehicles are the transportation services the Group employes by contracting car drivers. Weighted average lease term for the right-of-use assets as of December 31, 2023 and December 31, 2022 is 4.2 and 4.4 years respectively.

	Buildings and Offices	Vehicles	Total
Cost			
Balance at 1 January 2023	17,571	1,442	19,013
Additions	3,068	567	3,635
Cancellations	(67)	-	(67)
Modification of leases	1,495	-	1,495
Balance at 31 December 2023	**22,067**	**2,009**	**24,076**
Depreciation			
Balance at 1 January 2023	(9,646)	(1,215)	(10,861)
Depreciation for the year	(3,507)	(227)	(3,734)
Balance at 31 December 2023	**(13,153)**	**(1,442)**	**(14,595)**
Carrying amount			
At 31 December 2023	**8,914**	**567**	**9,481**

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

(in thousands of Georgian Lari)

Movements in lease liabilities in 2023 and 2022 were as follows:

	2023	2022
Balance at 1 January	8,121	9,127
Additions	3,635	2,629
Cancellations	(67)	(111)
Modifications	1,495	997
Interest expense	639	611
Foreign exchange (gain) / loss	(14)	(897)
Repayment of lease interest	(728)	(675)
Repayment of lease principal	(3,392)	(3,560)
Total	**9,689**	**8,121**

Weighted average lease term for the right-of-use assets as of December 31, 2023 and December 31, 2022 is 4.2 and 4.4 years respectively and the weighted average lessee’s incremental borrowing rate applied to the lease liabilities as of December 31, 2023 and December 31, 2022 is 9.1% and 8.1% respectively.

Lease Liability	**December 31, 2023**	**December 31, 2022**
Maturity analysis	**Amounts payable under leases**	**Amounts payable under leases**
Year 1	4,057	3,862
Year 2	3,304	2,612
Year 3	2,460	1,799
Year 4	612	330
Year 5	239	288
Onwards	78	226
Less: future interest	(1,061)	(996)
Total lease Liability	**9,689**	**8,121**

Amounts recognised in profit and loss	**2023**	**2022**
Depreciation expense	(3,734)	(3,663)
Interest expense	(639)	(611)
Foreign exchange gain / (loss)	14	897
Expenses related to short-term leases and low-cost items	(190)	(483)
Gain on lease cancellations	-	5
Total	**(4,549)**	**(3,855)**

Total cash outflows for leases amounted to GEL 4,323 thousand (2022: GEL 4,372 thousand). There are no lease payments subject to termination options expected to be exercised and in respect of which no lease liability was recognised as at 31 December 2023 and 31 December 2022.

(in thousands of Georgian Lari)

17. Property and equipment

	Buildings	Vehicles	Furniture	IT equipment	Leasehold improvements	Other	Total
Cost							
at January 1, 2023	105	1,194	1,378	6,088	6,561	4,262	19,588
Additions	-	30	132	873	423	180	1,638
Disposals	-	(38)	(2)	(91)	(82)	(3)	(216)
at December 31, 2023	**105**	**1,186**	**1,508**	**6,870**	**6,902**	**4,439**	**21,010**
Accumulated depreciation							
at January 1, 2023	(53)	(1,019)	(1,232)	(3,678)	(5,835)	(3,799)	(15,616)
Depreciation for the year	(4)	(90)	(76)	(722)	(531)	(198)	(1,621)
Eliminated on disposals	-	38	1	91	81	3	214
at December 31, 2023	**(57)**	**(1,071)**	**(1,307)**	**(4,309)**	**(6,285)**	**(3,994)**	**(17,023)**
Carrying amount							
At December 31, 2023	**48**	**115**	**201**	**2,561**	**617**	**445**	**3,987**

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

Other property and equipment mainly consist of security systems and generators. As at December 31, 2023 and December 31, 2022 fully depreciated items which are still in use represented GEL 10,671 thousand and GEL 11,364 thousand, respectively.

(in thousands of Georgian Lari)

18. Intangible assets

	Intangible assets
Cost	
at 1 January 2022	**7,934**
Additions	955
at December 31, 2022	**8,889**
Additions	1,563
at December 31, 2023	**10,452**
Accumulated amortization	
at January 1, 2022	**(3,440)**
Amortization for the year	(1,302)
at December 31, 2022	**(4,742)**
Amortization for the year	(1,447)
at December 31, 2023	**(6,189)**
Carrying amounts	
At December 31, 2022	**4,147**
At December 31, 2023	**4,263**

Intangible assets consist of software and licenses, including internally developed software in an amount of GEL 407 thousand (2022: GEL 757 thousand).

19. Other assets

	December 31, 2023	December 31, 2022
Other receivables	3,517	3,545
Other receivable from leasing	1,684	1,020
Less: expected credit losses	(165)	(142)
Total other financial assets	**5,036**	**4,423**
Repossessed assets	2,315	1,277
Prepayments	887	830
Taxes other than on income	351	-
Net assets to be leased out	232	136
Inventory	108	149
Total other non-financial assets	**3,893**	**2,392**
Total other assets	**8,929**	**6,815**

The Group holds repossessed property which represent land and buildings taken into Group's ownership as a settlement of non−performing loans. The Group intends to sell those assets in normal course of business.

In 2023, the Bank repossessed properties of GEL 898 thousand (represented by real estate) in non−cash settlement of loans issued (2022: GEL 443 thousand). The Group engages external appraiser to assess the fair values of the repossessed properties on a regular basis to identify the need of write−downs.

(in thousands of Georgian Lari)

20. Promissory notes

This note provides information about the contractual terms of interest-bearing promissory notes which are measured at amortized cost. For more information about exposure to interest rate, foreign currency and liquidity risks, see Note 30.

Terms and conditions of outstanding promissory notes are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2023 Carrying Amount	December 31, 2022 Carrying Amount
Unsecured promissory notes	USD	5.75% - 7.20%	2024	1,107	-
Unsecured promissory notes	GEL	13.50% - 14.00%	2024	223	-
Total promissory notes				**1,330**	**-**

Reconciliation of changes arising from financing activities

	January 1, 2023	Issuance of promissory notes during the year 2023	Repayment of promissory notes during the year 2023	Interest accrual during the year 2023	Interest paid during the year 2023	Foreign exchange gain during the year 2023	December 31, 2023
Promissory notes	-	1,313	-	22	(3)	(2)	**1,330**

Promissory note

In January 2023, the Group introduced a way of attracting funding from physical individuals, sole proprietors and other non-financial legal entities, in a form of a promissory-note product named "Coin" ("Moneta"), whereby the Buyer of a coin has a choice between a) open and closed note, and b) interest withdrawal frequency, via contractual terms.

A closed promissory note bears higher interest rate, since the principal is repaid to the Lender in a single bullet payment at maturity, whereby in case of an open note use of invested funds is up to Client's discretion and can be withdrawn with a short notice. In addition, the Lender can choose to receive interest earnings at a specified upon frequency or as a lump sum at maturity.

The term of the promissory note can vary from 3 to 12 months; in a minimum amount of GEL 100 thousand (or equivalent) up to GEL 1,000 thousand (or equivalent) in case of an open note or up to a maximum amount of GEL 3,000 thousand (or equivalent), in case of a closed note.

Covenant requirements

The are no covenant requirements applicable to promissory notes.

(in thousands of Georgian Lari)

21. Debt securities issued

This note provides information about the contractual terms of interest-bearing debt securities which are measured at amortized cost. For more information about exposure to interest rate, foreign currency and liquidity risks, see Note 30.

	December 31, 2023	December 31, 2022
Debt securities issued	26,406	-
Total debt securities issued	**26,406**	**-**

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

	December 31, 2023	December 31, 2022
Non-current liabilities		
Debt securities issued	24,848	-
Current liabilities		
Debt securities issued	1,558	-
Total debt securities issued	**26,406**	**-**

Terms and debt repayments

Terms and conditions of outstanding debt securities issued are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2023 Carrying Amount	December 31, 2022 Carrying Amount
Unsecured debt securities issued	GEL	4.75% + 6-month Tbilisi Inter Bank Rate (TIBR)	2025	26,406	-
Total debt securities issued				**26,406**	**-**

Reconciliation of changes arising from financing activities

	January 1, 2023	Issuance of debt securities during the year 2023	Repayment of debt securities during the year 2023	Interest accrual during the year 2023	Interest paid during the year 2023	Foreign exchange gain during the year 2023	December 31, 2023
Debt securities issued	-	25,000	-	3,860	(2,454)	-	**26,406**

(in thousands of Georgian Lari)

Corporate bond

In February 2023, the Group issued GEL 25,000 thousand face value first ever certified gender bond in the region, with Asian Development Bank (ADB) being an anchor investor (75%) and co-funded by the local commercial bank (25%), maturing in 2 years and bearing a contractual rate of interest of 4.75% over the 6-month Tbilisi Inter Bank Rate (TIBR) per annum on the notional amount.

Covenant requirements

The Group is obliged to comply with financial covenants in relation to debt securities issued. These covenants include stipulated ratios, as well as leverage, liquidity, profitability and risk coverage ratios. As at December 31 2023 the Group is in full compliance with these financial covenants.

22. Borrowed funds

This note provides information about the contractual terms of interest-bearing loans and borrowings which are measured at amortized cost. For more information about exposure to interest rate, foreign currency and liquidity risks, see Note 30.

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

	December 31, 2023	December 31, 2022
Non-current liabilities		
Borrowed funds	143,273	173,873
Current liabilities		
Borrowed funds	189,030	169,050
Total borrowed funds	**332,303**	**342,923**

Terms and debt repayments

Terms and conditions of outstanding borrowed funds are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2023 Carrying Amount	December 31, 2022 Carrying Amount
Unsecured loans from financial institutions	GEL	12.50% - 16.50%	2023 – 2027	218,764	211,955
Unsecured loans from financial institutions	USD	2.48% - 9.31%	2023 – 2028	113,539	130,968
Total borrowed funds				**332,303**	**342,923**

(in thousands of Georgian Lari)

Reconciliation of changes arising from financing activities

	January 1, 2023	Receipt of loans during the year 2023	Repayment of loans during the year 2023	Interest accrual during the year 2023	Interest paid during the year 2023	Foreign exchange gain during the year 2023	December 31, 2023
Borrowed funds	342,923	166,927	(176,620)	36,735	(36,931)	(731)	**332,303**

	January 1, 2022	Receipt of loans during the year 2022	Repayment of loans during the year 2022	Interest accrual during the year 2022	Interest paid during the year 2022	Foreign exchange gain during the year 2022	December 31, 2022
Borrowed funds	298,847	238,304	(175,210)	34,451	(32,969)	(20,500)	**342,923**

Unused credit line facilities

As at December 31, 2023 and December 31, 2022 the Group has credit lines amounting to GEL 30,000 thousand and GEL 26,250 thousand, respectively, all expiring during the following year. These instruments are of revolving nature and up until their maturity the Group is at liberty to withdraw and repay repeatedly as much amount within the limit of the underlying facilities, as needed, for the Group’s daily operations and liquidity management. The unused amounts as at respective period ends are GEL 5,000 thousand and GEL 21,243 thousand, respectively.

Covenant requirements

The Group is obligated to comply with financial covenants in relation to borrowed funds disclosed above. These covenants include stipulated ratios, as well as leverage, liquidity, profitability and risk coverage ratios.

There were several breaches of covenants during 2023. The Group notified all counterparties and obtained the waiver letters and/or managed to amend the requirements to more suitable limits, prior to December 31, 2023. As a result, the respective liabilities are not immediately repayable.

(in thousands of Georgian Lari)

23. Subordinated debt

This note provides information about the contractual terms of interest-bearing subordinated debt which are measured at amortized cost. For more information about exposure to interest rate, foreign currency and liquidity risks, see Note 30.

The Group's subordinated debt short-term and long-term classification is as following:

	December 31, 2023	December 31, 2022
Non-current liabilities		
Subordinated debt	13,892	13,420
Current liabilities		
Subordinated debt	2,975	156
Total subordinated debt	**16,867**	**13,576**

Terms and debt repayments

Terms and conditions of outstanding subordinated debt are as follows:

Lender	Currency	Nominal interest rate	Year of maturity	December 31, 2023 Carrying Amount	December 31, 2022 Carrying Amount
Unsecured loans from financial institutions	USD	7.80% - 9.20%	2025 - 2029	16,867	13,576
Total subordinated debt				**16,867**	**13,576**

In case of bankruptcy, the repayment of the subordinated debt will be made after repayment in full of all other liabilities of the Group.

Reconciliation of changes arising from financing activities

	January 1, 2023	Receipt of subordinated debt during the year 2023	Repayment of subordinated debt during the year 2023	Interest accrual during the year 2023	Interest paid during the year 2023	Foreign exchange loss during the year 2023	December 31, 2023
Subordinated debt	13,576	3,146	-	1,302	(1,174)	17	**16,867**

	January 1, 2022	Receipt of subordinated debt during the year 2022	Repayment of subordinated debt during the year 2022	Interest accrual during the year 2022	Interest paid during the year 2022	Foreign exchange gain during the year 2022	December 31, 2022
Subordinated debt	15,558	-	-	1,226	(1,179)	(2,029)	**13,576**

(in thousands of Georgian Lari)

Covenant requirements

The Group is obligated to comply with financial covenants in relation to subordinated debt, but their non-compliance will not result in a default while the debt satisfies the criteria of the National Bank of Georgia for including it in a regulatory capital. As at December 31 2023 the Group is in full compliance with these financial covenants.

24. Other liabilities

	December 31, 2023	December 31, 2022
Payments received for future installment	8,709	7,300
Payables to suppliers	2,576	3,191
Accruals for employee compensation	1,790	1,672
Payables to customers	584	321
Total other financial liabilities	**13,659**	**12,484**
Taxes other than on income	-	29
Other non-financial liabilities	23	21
Total other non-financial liabilities	**23**	**50**
Total other liabilities	**13,682**	**12,534**

As at December 31 2023 and December 31 2022 Payments received for future installment of GEL 8,709 thousand and GEL 7,300 thousand, respectively, represent payments made by the customers towards covering their respective loan obligations in advance to their contractual schedules. The Group records such early repayment amounts on its transit account as a liability towards customers until the actual scheduled repayment date rather than applying them towards loan repayment immediately, so that the customers are not charged with the early repayment fees. The amounts are always settled within a month and are included in the earliest liquidity buckets.

As at December 31 2023 and December 31 2022 payables to customers of GEL 584 thousand and GEL 321 thousand, respectively, represent loan repayments in excess of clients' actual outstanding exposures. The amounts remain as the Group's liability towards customers for 3 years post loan settlement, during which the amounts can be requested any time and are subject to immediate repayment. After a 3-year period, the amounts are recognized in Group's earnings.

(in thousands of Georgian Lari)

25. Share capital and reserves

Share capital

Share capital as at December 31, 2023:

Shareholder	Number of shares	Common/ non-redeemable preference	Share %	Voting rights	Capital GEL'000
AGRIF COÖPERATIEF U.A.	1,186,157	Common	38.75%	38.75%	1,185
DWM Funds S.C.A-SICAV SIF	378,719	Common	12.37%	12.37%	379
Individual shareholders	1,496,306	Common	48.88%	48.88%	1,497
	3,061,182		**100.00%**	**100.00%**	**3,061**
DWM Funds S.C.A-SICAV SIF	304,613	Preferred	53.12%	0.00%	305
AGRIF COÖPERATIEF U.A.	268,781	Preferred	46.88%	0.00%	269
	573,394		**100.00%**	**0.00%**	**574**

Share capital as at December 31, 2022:

Shareholder	Number of shares	Common/ non-redeemable preference	Share %	Voting rights	Capital GEL'000
AGRIF COÖPERATIEF U.A.	1,186,157	Common	38.75%	38.75%	1,185
DWM Funds S.C.A-SICAV SIF	378,719	Common	12.37%	12.37%	379
Fund Crystal	2,682	Common	0.09%	0.09%	3
Individual shareholders	1,493,624	Common	48.79%	48.79%	1,494
	3,061,182		**100.00%**	**100.00%**	**3,061**
DWM Funds S.C.A-SICAV SIF	304,613	Preferred	53.12%	0.00%	305
AGRIF COÖPERATIEF U.A.	268,781	Preferred	46.88%	0.00%	269
	573,394		**100.00%**	**0.00%**	**574**

All ordinary shares have a nominal value of GEL 1 and are fully paid.

All ordinary shares and all preferred shares rank equally with regard to the Group's residual assets, but in case of bankruptcy, preferred shares have priority over common ones. On the other hand, preferred shareholders have no voting rights.

Share Premium

Share premium represents the amount received for a share in excess of its registered value. Hence, it can be generated via the same sources as the share capital - actual issuance of shares.

Share premium was GEL 22,110 thousand for the years ended December 31, 2023 and December 31, 2022.

Dividends

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Group.

The holders of preferred stock are entitled to receive dividends at annual interest rate of 10%. According to Georgian legislation any promise of dividends is void and based on profit for the year and management decision.

Based on shareholders' decisions, dividends of GEL 997 thousand were declared and paid to preferred shareholders, dividends per share being GEL 1.74,

In accordance with Georgian legislation the Group's distributable reserves are limited to the balance of retained earnings as recorded in the Group's consolidated financial statements prepared in accordance with IFRS.

26. Contingencies

Litigation

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

Taxation contingencies

Tax legislation in Georgia is subject to varying interpretations and changes can occur frequently. These circumstances may create tax risks in Georgia that are more significant than in other developed economics. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements, and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Operating environment

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

For the last few years Georgia has experienced a number of legislative changes, which have been largely related to Georgia's accession plan to the European Union. Whilst the legislative changes implemented during the years paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

Additionally, Georgia achieved EU candidacy status in 2023, which increased consumer and business confidence.

(in thousands of Georgian Lari)

27. Related party transactions

Control relationships

As at December 31, 2023 the shareholders that have significant influence on the Group are AGRIF COÖPERATIEF U.A. and DWM Funds S.C.A-SICAV SIF with 38.75% and 12.37% shareholding, respectively (See Note 1).

Transactions with members of the Supervisory and Executive Boards

Total remuneration and management consulting fees included in personnel expenses for the years ended December 31, 2023 and 2022 is as follows:

	2023	2022
Salaries and bonuses	1,685	1,458
Consulting fees	596	539
	2,281	**1,997**

Total funding attracted for the years ended December 31, 2023 and 2022 is as follows:

	Transaction value 2023	Transaction value 2022	Outstanding balance 2023	Outstanding balance 2022
Promissory note	217	-	215	-
Interest expense	2	-	2	-

Included in other operating expenses is GEL 7 thousand of business trip expenses (2022: nill).

28. Fair value of financial instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Fair value hierarchy

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

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

Cash and cash equivalents – Cash and cash equivalents are carried at amortized cost which approximates their current fair value.

Other financial assets and liabilities – Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.

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

Borrowed funds, debt securities issued, promissory notes and subordinated debt – The fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using current interest rates of new instruments. For the borrowings received at variable rates management believes that carrying rate may be assumed to be market interest rate.

Lease liability - The fair value of lease liability is based on estimated future cash outflows discounted at current interest rate. Discount rate depends on currency and maturity of the instruments. The fair value of lease liability approximates its cost.

The following table shows the carrying amount and fair value of financial assets and financial liabilities recognised in the consolidated financial statements.

(in thousands of Georgian Lari)

	Fair value hierarchy	December 31, 2023		December 31, 2022	
		Carrying value	Fair value	Carrying value	Fair value
Loans to customers	Level 3	431,198	442,087	387,752	397,757
Net investments in leases	Level 3	12,419	12,419	9,841	9,841
Other financial assets	Level 3	5,036	5,036	4,423	4,423
Lease liability	Level 3	9,689	9,689	8,121	8,121
Promissory notes	Level 3	1,330	1,330	-	-
Debt securities issued	Level 3	26,406	26,406	-	-
Borrowed funds	Level 3	332,303	331,705	342,923	342,135
Subordinated debt	Level 3	16,867	16,593	13,576	14,527
Other financial liabilities	Level 3	13,659	13,659	12,484	12,484

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

Derivative financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Derivative financial instruments	Fair value as at December 31, 2023	Fair value as at December 31, 2022	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss	816	-	Level 2	Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates.	N/A	N/A
Financial liabilities at fair value through profit or loss	-	8,032	Level 2			

The Group uses widely recognised valuation models for determining the fair value of derivative financial instruments, like foreign exchange forward contracts and currency swaps that use only observable market data and require less management judgment and estimation.

29. Capital management

The Group's objectives when maintaining capital are:

- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders; and
- To provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure,

(in thousands of Georgian Lari)

the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.
The Group is in compliance with minimum statutory capital requirements – the minimum cash contribution in the equity should not be less than GEL 1,000 thousand.

Starting from 1 September 2018, the Group also has to comply with the financial covenants established by the National Bank of Georgia (NBG), such as: capital adequacy, liquidity, property investment, investment, related party exposure and pledged assets ratios. The compliance with these ratios is monitored by the NBG on a monthly basis.

According to the NBG regulations, the Group has to hold minimum level of CAR at least 18%.

Considering effects of COVID-19 on the finance sector, the NBG reduced its CAR requirement on a case-by-case basis, back to its initial requirements from March 2023. The Group has been in compliance with the requirements throughout the whole period, as well as at the reporting date (2023: 18%; 2022: 16%).

The below table discloses the compliance with NBG CAR ratio as at December 31, 2023 and December 31, 2022. Basis of calculation are NBG rules and guidelines, as issued and monitored by the regulator, rather than IFRSs:

	2023	**2022**
Share capital	3,635	3,635
Share premium	22,110	22,110
Retained earnings	61,445	50,506
Eligible subordinated debt	9,144	8,646
Regulatory capital before reductions	**96,334**	**84,897**
Less intangible assets	(3,935)	(3,689)
Less investment in a subsidiary	(472)	(340)
Regulatory capital	**91,927**	**80,868**

	2023	**2022**
Total assets before reductions	478,923	455,036
Less intangible assets	(3,935)	(3,689)
Less investment in a subsidiary	(472)	(340)
Total assets after reductions	**474,516**	**451,007**

	December 31, 2023	**December 31, 2022**
Capital adequacy ratio [9]	19.37%	17.93%

The Group also monitors its capital adequacy levels to comply with debt covenants, calculated in accordance with the lenders' requirements. See Note 22 for the details of compliance with covenants.

[9] Not audited

30. Risk management policies

Management of risk is fundamental to the business and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk and liquidity risk.

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

The Supervisory Board, together with its committees, has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Group's Executive Board Risk Committee and the Finance Department are responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Executive Board.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees depending on the type and amount of the exposure.

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group has policies and procedures for the management of credit exposures, including the establishment of Credit Committees, the analytical bodies responsible for analysing the information in the loan applications, assessing and reducing the credit risks. The credit policy (in the form of a Credit Manual) is reviewed and approved by the Supervisory Board.

The credit policy establishes:

- Procedures for reviewing and approving loan credit applications;
- Methodology for the credit assessment of borrowers;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;

- Procedures for the ongoing monitoring of loans and other credit exposures.

The Credit Committee is authorized to make the final decision about financing or rejecting the loan applications. The loans presented to the Committee for approval are based on limits established by the credit policy.

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

Assessment of the applicant's creditworthiness through monitoring of its business allows timely avoidance the risk of financial loss. Monitoring is performed by credit officers who report the results to the management. Regular monitoring of loans is also performed by the Monitoring Department. For timely response to potential risks, monitoring results are presented to the top management on monthly basis. The monitoring system helps to manage credit risks and to minimize them in a timely manner.

Exposure to credit risk is also managed, in part, by obtaining collateral and personal guarantees.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position.

As at December 31, 2023 and 2022, the Group has no debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of the Group's equity.

Portfolio segmentation

For the purpose of portfolio segmentation, according to the homogeneity of the risk of portfolio grouping, the portfolio is divided in the groups according to product types: Micro Business, SME, Agricultural, Housing, Consumer, Installment and Pawnshop loans. Vintage analysis and default rate analysis are performed to further ensure the homogeneity of identified segments. PD is calculated separately for each of the above-mentioned groups.

The client exposure is further broken down into collateralized and non-collateralized loans, as the two display different characteristics and bear different risks.

Significant increase in credit risk

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

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

- The remaining lifetime PD at the reporting date; with the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.
- As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

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

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and
- There is no unwarranted volatility in loss allowance from transfers between 12-months PD (probability of default) and lifetime PD.

Definition of default

The Group recognizes default in the following cases:

- Arrears including restructured loans > 90 days
- Decease of a client
- Force majeure, when a client becomes insolvent due to external factors beyond their control
- Pawnshop default point is > 30 days in arrears

The definition of default is in line with relevant regulations, taking into account the 90 days past due cap presumption of IFRS 9.

The loans for which the Group recognizes default, are credit-impaired loans.

Incorporation of forward-looking information

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

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

- Real growth rate of GDP of Georgia;
- Inflation rate;
- Monetary policy interest rate;
- Nominal effective exchange rate.

(in thousands of Georgian Lari)

The table below summarizes the principal macroeconomic indicators included in the economic scenarios used at December 31, 2023 for the years 2024 to 2026, for Georgia:

	2023	2024	2025
GDP Growth			
Base scenario	5.0	4.5	5.0
Upside scenario	6.5	5.5	5.0
Downside scenario	3.0	4.0	5.0
Inflation rate			
Base scenario	3.6	3.1	3.0
Upside scenario	3.25	3.0	3.0
Downside scenario	5.0	4.0	3.0
Monetary policy interest rate			
Base scenario	8.75	7.75	7.0
Upside scenario	7.75	7.0	7.0
Downside scenario	9.25	8.5	7.5
Nominal effective exchange rate			
Base scenario	409.3	409.3	409.3
Upside scenario	417.5	423.8	423.8
Downside scenario	368.4	368.4	379.4

Measurement of ECL

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

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

Probability of default (PD)

Cox model is a well-known statistical concept widely used in survival analysis, which is the area of statistics that deals with lifetime data. The variable of interest is the time to the occurrence of an event. It is commonly used in medical drug studies and reliability studies in engineering. In the case of credit risk, the event in question is default.

As mentioned in the ECL paragraph, ECL calculation utilizes PD (Marginal Probability of Default) through CPD (cumulative Probability of Default). It occurs that both parameters can be easily obtained from hazard functions calculated for each exposure.

As a result of the application of survival models, there is a transition from old model based only on delinquency migration to individual assessment in new model. In addition to applicative factors, behavioral factors are added to the new model, which demonstrates the potential for the development of this approach in assessing the probability of default.

Full procedure of PD model estimation consisted of five main steps:

- Data preparation and selection of candidates for explanatory variables.
- Single analysis.
- multi-factor analysis.
- Estimation of covariates in Cox proportional hazard model.
- Quality and back testing

Main assumptions and segmentation

For the modelling purposes the following assumptions were taken:

- Only first default for each exposure was consider as valid (i.e. remaining data after default entry was cut off)
- All facilities which are in default at their first observation date were excluded from the sample
- Default was defined by 2 criteria: days past due and written off status
- Each occurrence of a loan within a timeline was considered as a separate observation

Modeling was based on a product group segmentation that separates loans looking at common characteristics.

As at December 31, 2023, 10% increase/(decrease) in average PD per each segment results in ECL increase/(decrease) by 4.7% that represents GEL 579/(579) thousand.

As at December 31, 2022, 10% increase/(decrease) in average PD per each segment results in ECL increase/(decrease) by 6.2% that represents GEL 763/(763) thousand.

Loss given default (LGD)

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

As at December 31, 2023, 10% increase/(decrease) in average LGD per each segment results in ECL increase/(decrease) by 10.0% that represents GEL 1,226/(1,226) thousand.

As at December 31, 2022, 10% increase/(decrease) in average LGD per each segment results in ECL increase/(decrease) by 10.0% that represents GEL 1,236/(1,236) thousand.

Exposure at default (EAD)

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

Credit quality of loans to customers

The following tables provide information on the credit quality of loans to customers as at December 31, 2023:

(in thousands of Georgian Lari)

	Gross loans Stage 1 12-month ECL	Gross loans Stage 2 Lifetime ECL - not credit-impaired	Gross loans Stage 3 Lifetime ECL - credit-impaired	ECL	Net loans	ECL allowance to gross loans %
Analysis by product group:						
Micro business loans						
Not overdue	111,634	3,339	2,007	(1,571)	115,409	1%
1 to 30 days overdue	218	648	291	(158)	999	14%
31 to 60 days overdue	-	396	73	(69)	400	15%
61 to 90 days overdue	-	392	103	(115)	380	23%
91 to 180 days overdue	-	-	1,398	(606)	792	43%
Over 180 days overdue	-	-	-	-	-	0%
Total micro business loans	**111,852**	**4,775**	**3,872**	**(2,519)**	**117,980**	**2%**
Agricultural loans						
Not overdue	92,626	3,419	2,784	(3,889)	94,940	4%
1 to 30 days overdue	179	421	173	(128)	645	17%
31 to 60 days overdue	-	361	46	(68)	339	17%
61 to 90 days overdue	-	331	183	(165)	349	32%
91 to 180 days overdue	-	-	1,067	(520)	547	49%
Over 180 days overdue	-	-	-	-	-	0%
Total agricultural loans	**92,805**	**4,532**	**4,253**	**(4,770)**	**96,820**	**5%**
Consumer loans						
Not overdue	84,268	3,580	1,436	(1,955)	87,329	2%
1 to 30 days overdue	204	517	146	(129)	738	15%
31 to 60 days overdue	-	264	86	(102)	248	29%
61 to 90 days overdue	-	223	153	(144)	232	38%
91 to 180 days overdue	-	-	766	(326)	440	43%
Over 180 days overdue	-	-	-	-	-	0%
Total consumer loans	**84,472**	**4,584**	**2,587**	**(2,656)**	**88,987**	**3%**
Fast instalment loans						
Not overdue	50,510	457	76	(406)	50,637	1%
1 to 30 days overdue	154	201	13	(10)	358	3%
31 to 60 days overdue	-	192	11	(16)	187	8%
61 to 90 days overdue	-	152	31	(23)	160	13%
91 to 180 days overdue	-	-	632	(139)	493	22%
Over 180 days overdue	-	-	-	-	-	0%
Total fast instalment loans	**50,664**	**1,002**	**763**	**(594)**	**51,835**	**1%**
SME loans						
Not overdue	35,372	3,755	3,192	(2,058)	40,261	5%
1 to 30 days overdue	-	44	183	(99)	128	44%
31 to 60 days overdue	-	57	-	(8)	49	14%
61 to 90 days overdue	-	12	23	(11)	24	31%
91 to 180 days overdue	-	-	287	(173)	114	60%
Over 180 days overdue	-	-	-	-	-	0%
Total SME loans	**35,372**	**3,868**	**3,685**	**(2,349)**	**40,576**	**5%**
Pawnshop loans						
Not overdue	15,529	2,969	206	(68)	18,636	0%
1 to 30 days overdue	39	153	12	(3)	201	1%
31 to 60 days overdue	-	-	21	(6)	15	29%
61 to 90 days overdue	-	-	4	(1)	3	25%
91 to 180 days overdue	-	-	-	-	-	0%
Over 180 days overdue	-	-	-	-	-	0%
Total pawnshop loans	**15,568**	**3,122**	**243**	**(78)**	**18,855**	**0%**

(in thousands of Georgian Lari)

Housing loans						
Not overdue	14,846	1,195	306	(264)	16,083	2%
1 to 30 days overdue	-	34	26	(17)	43	28%
31 to 60 days overdue	-	-	3	(2)	1	67%
61 to 90 days overdue	-	27	1	(14)	14	50%
91 to 180 days overdue	-	-	10	(6)	4	60%
Over 180 days overdue	-	-	-	-	-	0%
Total housing loans	**14,846**	**1,256**	**346**	**(303)**	**16,145**	**2%**
Total loans to customers	**405,579**	**23,139**	**15,749**	**(13,269)**	**431,198**	**3%**

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

	Gross loans Stage 1 12-month ECL	Gross loans Stage 2 Lifetime ECL - not credit-impaired	Gross loans Stage 3 Lifetime ECL - credit-impaired	ECL	Net loans	ECL allowance to gross loans %
Analysis by product group:						
Micro business loans						
Not overdue	84,603	5,485	1,158	(1,556)	89,690	2%
1 to 30 days overdue	32	451	117	(97)	503	16%
31 to 60 days overdue	-	364	61	(83)	342	20%
61 to 90 days overdue	-	415	45	(134)	326	29%
91 to 180 days overdue	-	-	1,522	(829)	693	545
Over 180 days overdue	-	-	-	-	-	0%
Total micro business loans	**84,635**	**6,715**	**2,903**	**(2,699)**	**91,554**	**3%**
Agricultural loans						
Not overdue	71,488	5,303	2,270	(4,905)	74,156	6%
1 to 30 days overdue	25	445	80	(130)	420	24%
31 to 60 days overdue	-	307	97	(151)	253	37%
61 to 90 days overdue	-	345	105	(165)	285	37%
91 to 180 days overdue	-	-	1,214	(740)	474	61%
Over 180 days overdue	-	-	-	-	-	0%
Total agricultural loans	**71,513**	**6,400**	**3,766**	**(6,091)**	**75,588**	**7%**
Consumer loans						
Not overdue	66,475	5,327	723	(849)	71,676	1%
1 to 30 days overdue	32	554	139	(97)	628	13%
31 to 60 days overdue	-	362	45	(88)	319	22%
61 to 90 days overdue	-	278	38	(114)	202	36%
91 to 180 days overdue	-	-	914	(500)	414	55%
Over 180 days overdue	-	-	-	-	-	0%
Total consumer loans	**66,507**	**6,521**	**1,859**	**(1,648)**	**73,239**	**2%**
Fast instalment loans						
Not overdue	45,429	628	26	(145)	45,938	0%
1 to 30 days overdue	41	222	10	(6)	267	2%
31 to 60 days overdue	-	161	9	(11)	159	6%
61 to 90 days overdue	-	206	24	(29)	201	13%
91 to 180 days overdue	-	-	813	(180)	633	22%
Over 180 days overdue	-	-	-	-	-	0%
Total fast instalment loans	**45,470**	**1,217**	**882**	**(371)**	**47,198**	**1%**

(in thousands of Georgian Lari)

SME loans						
Not overdue	33,397	6,660	3,241	(1,914)	41,384	4%
1 to 30 days overdue	-	180	113	(71)	222	24%
31 to 60 days overdue	-	93	55	(41)	107	28%
61 to 90 days overdue	-	112	121	(66)	167	28%
91 to 180 days overdue	-	-	682	(381)	301	56%
Over 180 days overdue	-	-	-	-	-	0%
Total SME loans	**33,397**	**7,045**	**4,212**	**(2,473)**	**42,181**	**6%**
Pawnshop loans						
Not overdue	-	35,193	312	(91)	35,414	0%
1 to 30 days overdue	-	332	92	(26)	398	6%
31 to 60 days overdue	-	-	77	(22)	55	29%
61 to 90 days overdue	-	-	-	-	-	0%
91 to 180 days overdue	-	-	-	-	-	0%
Over 180 days overdue	-	-	-	-	-	0%
Total pawnshop loans	**-**	**35,525**	**481**	**(139)**	**35,867**	**0%**
Housing loans						
Not overdue	19,743	2,200	422	(316)	22,049	1%
1 to 30 days overdue	-	54	5	(2)	57	3%
31 to 60 days overdue	-	5	-	(2)	3	40%
61 to 90 days overdue	-	13	-	(7)	6	54%
91 to 180 days overdue	-	-	24	(14)	10	58%
Over 180 days overdue	-	-	-	-	-	0%
Total housing loans	**19,743**	**2,272**	**451**	**(341)**	**22,125**	**2%**
Total loans to customers	**321,265**	**65,695**	**14,554**	**(13,762)**	**387,752**	**3%**

During the years ended December 31, 2023 and 2022, the Group modified the contractual cash flows on certain loans to customers. All such loans were transferred to at least Stage 2 with a loss allowance measured at an amount equal to lifetime expected credit losses. Therefore, there are no loans with modified contractual cash flows transferred to Stage 1 from Stage 2 or Stage 3.

Credit quality of net investments in leases

The following tables provide information on the credit quality of net investments in leases as at December 31, 2023:

	Investments in leases Stage 1 12-month ECL	Investments in leases Stage 2 Lifetime ECL - not credit-impaired	Investments in leases Stage 3 Lifetime ECL - credit-impaired	ECL	Net investments in leases	ECL allowance to investments in leases %
Not overdue	9,308	216	277	(95)	9,706	1%
1 to 30 days overdue	638	73	38	(5)	744	1%
31 to 60 days overdue	-	595	64	(7)	652	1%
61 to 90 days overdue	-	186	-	(1)	185	1%
91 to 180 days overdue	-	-	1,273	(293)	980	23%
Over 180 days overdue	-	-	192	(40)	152	21%
Total investments in leases	**9,946**	**1,070**	**1,844**	**(441)**	**12,419**	**3%**

(in thousands of Georgian Lari)

The following tables provide information on the credit quality of net investments in leases as at December 31, 2022:

	Investments in leases Stage 1 12-month ECL	Investments in leases Stage 2 Lifetime ECL - not credit-impaired	Investments in leases Stage 3 Lifetime ECL - credit-impaired	ECL	Net investments in leases	ECL allowance to investments in leases %
Not overdue	8,578	308	-	(105)	8,781	1%
1 to 30 days overdue	455	-	-	(6)	449	1%
31 to 60 days overdue	-	304	-	(3)	301	1%
61 to 90 days overdue	-	170	-	(2)	168	1%
91 to 180 days overdue	-	-	239	(97)	142	41%
Over 180 days overdue	-	-	-	-	-	0%
Total investments in leases	**9,033**	**782**	**239**	**(213)**	**9,841**	**2%**

Analysis of collateral and other credit enhancements

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

	December 31, 2023	% of loan portfolio	December 31, 2022	% of loan portfolio
Loans with no collateral	320,736	74%	290,886	75%
Loans with collateral	110,462	26%	96,866	25%
Total	**431,198**	**100%**	**387,752**	**100%**

Type of collateral	December 31, 2023 Gross carrying amount	December 31, 2023 ECL	December 31, 2023 Carrying amount	December 31, 2023 Collateral Fair Value
Real estate	60,554	(3,196)	57,358	244,510
Precious metals	18,930	(78)	18,852	21,902
Movable property	35,118	(866)	34,252	73,306
Non-collateralized	329,865	(9,129)	320,736	-
Total	**444,467**	**(13,269)**	**431,198**	**339,718**

Type of collateral	December 31, 2022 Gross carrying amount	December 31, 2022 ECL	December 31, 2022 Carrying amount	December 31, 2022 Collateral Fair Value
Real estate	66,153	(3,377)	62,776	219,936
Precious metals	16,711	(22)	16,689	19,668
Movable property	17,696	(295)	17,401	32,945
Non-collateralized	300,954	(10,068)	290,886	-
Total	**401,514**	**(13,762)**	**387,752**	**272,549**

Loans with collateral are mainly secured by real estate, movable property and precious metals. In addition, the majority of the loans are collateralized by sureties. Secured loans are mainly included in the pawn shop, service, trade and agricultural loan categories.

Stage 3 loans are mostly collateralized by real estate, however a certain part of portfolio is not secured.

Management estimates that the fair value of collateral estimated at the inception of the loans is at least equal to the carrying amounts of corresponding secured loans as at December 31, 2023 and 2022, excluding the effect of overcollateralization. Due to the low loan-to-value ratio, the management does not expect any possible negative movements in market prices to have a significant impact on recoverability of the loans.

Sureties received from individuals are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral.

Repossessed assets are presented in other assets. Refer to Note 19.

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 net investments in leases as at December 31, 2023 and December 12, 2022 would have been higher by 1,483 thousand and 178 thousand, respectively.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk for the Group arises from open positions in interest rates, which are exposed to general and specific market movements and changes in the level of foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions. These are monitored on a regular basis and reviewed by the Executive Board and approved by the Supervisory Board.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position is presented by the lower of interest rate receipt date or maturity date of financial instruments:

(in thousands of Georgian Lari)

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
December 31, 2023							
ASSETS							
Cash and cash equivalents	305	-	-	-	-	7,948	8,253
Financial assets at fair value through profit or loss	123	221	472	-	-	-	816
Loans to customers	90,811	56,046	100,658	181,287	2,396	-	431,198
Net investments in leases	2,345	2,346	4,692	3,036	-	-	12,419
Other financial assets	-	-	-	-	-	5,036	5,036
	93,584	**58,613**	**105,822**	**184,323**	**2,396**	**12,984**	**457,722**
LIABILITIES							
Dividends payable	-	997	-	-	-	-	997
Promissory notes	473	540	317	-	-	-	1,330
Debt securities issued	26,406	-	-	-	-	-	26,406
Borrowed funds	222,228	15,032	24,430	70,613	-	-	332,303
Subordinated debt	149	154	2,671	10,687	3,206	-	16,867
Lease liability	1,157	856	1,658	5,952	66	-	9,689
Other financial liabilities	-	-	-	-	-	13,659	13,659
	250,413	**17,579**	**29,076**	**87,252**	**3,272**	**13,659**	**401,251**
Interest sensitivity gap	**(156,829)**	**41,034**	**76,746**	**97,071**	**(876)**	**(675)**	
Cumulative interest sensitivity gap	**(156,829)**	**(115,795)**	**(39,049)**	**58,022**	**57,146**	**56,471**	

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
December 31, 2022							
ASSETS							
Cash and cash equivalents	6,051	-	-	-	-	21,761	27,812
Loans to customers	97,298	46,808	83,835	157,477	2,334	-	387,752
Net investments in leases	68	142	747	8,804	80	-	9,841
Other financial assets	-	-	-	-	-	4,423	4,423
	103,417	**46,950**	**84,582**	**166,281**	**2,414**	**26,184**	**429,828**
LIABILITIES							
Financial liability at fair value through profit or loss	-	-	8,032	-	-	-	8,032
Dividends payable	-	-	997	-	-	-	997
Borrowed funds	73,146	29,974	65,930	173,873	-	-	342,576
Subordinated debt	-	156	-	13,420	-	-	13,576
Lease liability	863	879	1,611	4,565	203	-	8,121
Other financial liabilities	-	-	-	-	-	12,484	12,484
	74,009	**31,009**	**76,570**	**191,858**	**203**	**12,484**	**386,133**
Interest sensitivity gap	**29,408**	**15,941**	**8,012**	**(25,577)**	**2,211**	**13,700**	
Cumulative interest sensitivity gap	**29,408**	**45,349**	**53,361**	**27,784**	**29,995**	**43,695**	

(in thousands of Georgian Lari)

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2023 and 2022. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2023 Average effective interest rate, %		2022 Average effective interest rate, %	
	GEL	USD	GEL	USD
Interest bearing assets				
Cash and cash equivalents	5.69%	1.00%	5.53%	1.00%
Loans to customers	35.54%	18.73%	34.89%	18.80%
Net investments in leases	38.63%	-	37.97%	-
Interest bearing liabilities				
Promissory notes	13.75%	6.37%	-	-
Debt securities issued	15.57%	-	-	-
Borrowed funds	13.46%	6.61%	15.59%	5.89%
Subordinated debt	-	8.83%	-	8.53%

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2023 and 2022, is as follows:

	2023	2022
100 bp parallel fall	739	(320)
100 bp parallel rise	(739)	320

Part of the Group’s borrowings are at floating rates, linked to NBG refinance, TIBR and SOFR rate. Loan rates can be changed upon renewal of the loans. Therefore, Group aims to obtain preferably fixed rate debt funding to reduce the risk of re−pricing from the funding side.

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate of financial liabilities held at 31 December:

Currency	2023	2022
GEL (+1%/−1%)	2,406 / (2,406)	2,039 / (2,039)
USD (+1/−1%)	30 / (30)	115 / (115)

(in thousands of Georgian Lari)

Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk through use of back to back loans which are classified as derivatives (see Note 13), such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at December 31, 2023:

	EUR	USD	Other	Total
ASSETS				
Cash and cash equivalents	1,175	1,566	247	2,988
Loans to customers	-	83	-	83
Other financial assets	131	170	-	301
Total assets	**1,306**	**1,819**	**247**	**3,372**
LIABILITIES				
Promissory notes	-	1,107	-	1,107
Borrowed funds	-	113,539	-	113,539
Subordinated debt	-	16,867	-	16,867
Lease liability	-	7,497	-	7,497
Other financial liabilities	1	4	-	5
Total liabilities	**1**	**139,014**	**-**	**139,015**
Net position	**1,305**	**(137,195)**	**247**	**(135,643)**
The effect of derivatives held for risk management	**(1,279)**	**139,480**	**(1,626)**	**136,575**
Net position after derivatives held for risk management purposes	**26**	**2,285**	**(1,379)**	**932**

The following table shows the foreign currency exposure structure of financial assets and liabilities as at December 31, 2022:

	EUR	USD	Other	Total
ASSETS				
Cash and cash equivalents	5,017	8,497	591	14,105
Loans to customers	-	317	-	317
Other financial assets	11	622	-	633
Total assets	**5,028**	**9,436**	**591**	**15,055**
LIABILITIES				
Borrowed funds	-	130,968	-	130,968
Subordinated debt	-	13,576	-	13,576
Lease liability	-	6,783	-	6,783
Other financial liabilities	-	43	-	43
Total liabilities	**-**	**151,370**	**-**	**151,370**
Net position	**5,028**	**(141,934)**	**591**	**(136,315)**
The effect of derivatives held for risk management	**(2,162)**	**136,992**	**-**	**134,830**
Net position after derivatives held for risk management purposes	**2,866**	**(4,942)**	**591**	**(1,485)**

(in thousands of Georgian Lari)

The following significant exchange rates were applied during the year:

in GEL	Average rate		Reporting date spot rate	
	2023	2022	2023	2022
USD 1	2.6279	2.9156	2.6894	2.7020
EUR 1	2.8416	3.0792	2.9753	2.8844

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2023 and 2022, would have increased (decreased) profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular - interest rates, remain constant.

	2023	2022
10% appreciation of USD against GEL	183	(420)
10% appreciation of EUR against GEL	2	244

A strengthening of the GEL against the above currencies at December 31, 2023 and 2022 would have had the equal opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Executive and Supervisory Boards.

The Group seeks to actively support a diversified and stable funding base comprising long- term and short-term loans from other banks and other financial institutions, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- Projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto;
- Maintaining a diverse range of funding sources;
- Managing the concentration and profile of debts;
- Maintaining debt financing plans;
- Maintaining liquidity and funding contingency plans.

(in thousands of Georgian Lari)

Liquidity position is monitored by the Finance Department and the ALCO. Under the normal market conditions, information on the liquidity position are presented to the Management Risk Committee on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Finance Department.

The Group defines certain limits and early indicators to monitor its liquidity, predict and detect potential issues and act upon them in a timely manner. Monitoring inter-bank dependence ratio, whereby liabilities to banks shouldn't exceed an internally established limit, and ensuring 3-month liquidity horizon, whereby available liquid funds should be sufficient to meet obligations for the next 3 months, are a few of them. In addition, the Group complies with the Regulatory Liquidity ratio, as established by the National Bank of Georgia, whereby the average liquid assets should at least be 18% of the average total liabilities post deductions.

The following tables show the undiscounted cash flows on financial liabilities and on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liabilities.

The maturity analysis for financial liabilities as at December 31, 2023 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Financial liabilities							
Dividends payable	-	-	997	-	-	997	997
Promissory notes	473	5	547	323	-	1,348	1,330
Debt securities issued	-	1,560	-	1,990	26,902	30,452	26,406
Borrowed funds	1,751	32,547	44,340	126,961	163,974	369,573	332,303
Subordinated debt	149	-	154	3,379	17,191	20,873	16,867
Lease liability	356	700	1,032	1,969	6,693	10,750	9,689
Other financial liabilities	11,099	-	-	2,560	-	13,659	13,659
Total financial liabilities	**13,828**	**34,812**	**47,070**	**137,182**	**214,760**	**447,652**	**401,251**

The maturity analysis for financial liabilities as at December 31, 2022 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross Amount outflow	Carrying amount
Financial liabilities							
Financial liability at fair value through profit or loss	-	-	-	8,032	-	8,032	8,032
Dividends payable	-	-	-	997	-	997	997
Borrowed funds	8,339	69,636	36,896	78,087	202,482	395,440	342,923
Subordinated debt	-	-	553	559	16,371	17,483	13,576
Lease liability	338	676	1,014	1,834	5,255	9,117	8,121
Other financial liabilities	9,841	15	-	2,575	53	12,484	12,484
Total financial liabilities	**18,518**	**70,327**	**38,463**	**92,084**	**224,161**	**443,553**	**386,133**

(in thousands of Georgian Lari)

The table below shows an analysis, by expected maturities, of amounts recognised in the consolidated statement of financial position as at December 31, 2023:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Overdue	Total
ASSETS							
Cash and cash equivalents	8,253	-	-	-	-	-	8,253
Financial assets at fair value through profit or loss	11	112	693	-	-	-	816
Loans to customers	42,504	40,403	156,704	181,287	2,396	7,904	431,198
Net investments in leases	782	1,564	6,478	3,036	-	559	12,419
Other financial assets	3,123	3	70	1,797	9	34	5,036
Total assets	**54,673**	**42,082**	**163,945**	**186,120**	**2,405**	**8,497**	**457,722**
LIABILITIES							
Dividends payable	-	-	997	-	-	-	997
Promissory notes	473	-	857	-	-	-	1,330
Debt securities issued	-	1,558	-	24,848	-	-	26,406
Borrowed funds	1,750	32,062	155,218	143,273	-	-	332,303
Subordinated debt	149	-	2,826	10,686	3,206	-	16,867
Lease liability	583	574	2,514	5,952	66	-	9,689
Other financial liabilities	11,099	-	2,560	-	-	-	13,659
Total liabilities	**14,054**	**34,194**	**164,972**	**184,759**	**3,272**	**-**	**401,251**
Net position	**40,619**	**7,888**	**(1,027)**	**1,361**	**(867)**	**8,497**	**56,471**

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Overdue	Total
ASSETS							
Cash and cash equivalents	27,812	-	-	-	-	-	27,812
Loans to customers	54,742	35,109	130,643	157,477	2,334	7,447	387,752
Net investments in leases	611	1,223	4,442	2,505	-	1,060	9,841
Other financial assets	2,234	1	50	1,564	493	81	4,423
Total assets	**85,399**	**36,333**	**135,135**	**161,546**	**2,827**	**8,588**	**429,828**
LIABILITIES							
Financial liability at fair value through profit or loss	-	-	8,032	-	-	-	8,032
Dividend payable	-	-	997	-	-	-	997
Borrowed funds	7,402	65,744	95,904	173,873	-	-	342,923
Subordinated debt	-	-	156	13,420	-	-	13,576
Lease liability	284	579	2,490	4,565	203	-	8,121
Other financial liabilities	9,841	15	2,575	53	-	-	12,484
Total liabilities	**17,527**	**66,338**	**110,154**	**191,911**	**203**	**-**	**386,133**
Net position	**67,872**	**(30,005)**	**24,981**	**(30,365)**	**2,624**	**8,588**	**43,695**

Geographical risk

As at December 31, 2023 and 2022 the Group's all financial assets are located in Georgia and its business plans are critically dependent on the stability and rule of law in the country. Georgia continues to display certain characteristics of an emerging market. As such, the Group is exposed to any deterioration of the business or legal environment within the country.

As at December 31, 2023 Group has borrowed funds (including subordinated debt, debt securities issued and promissory notes) of GEL 210,609 thousand, GEL 146,940 thousand and GEL 20,357 thousand received from counterparties registered in Europe, Georgia and the USA, respectively. As at December 31, 2022 Group has borrowed funds (included subordinated debt) of GEL 228,008 thousand, GEL 102,725 thousand and GEL 25,766 thousand received from counterparties registered in Europe, Georgia and the USA, respectively.

31. Subsequent events

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

- Borrowed funds of GEL 25,700 thousand, USD 9,000 thousand and EUR 6,000 thousand from different international financial institutions and local commercial banks;

- Subordinated debt of USD 2,000 thousand from an international financial institution, which will further strengthen the Group's regulatory capital adequacy position;

- Multiple promissory notes amounting to GEL 3,600 thousand equivalent from local physical individuals and legal entities.

In March 2024 Lasha Kanchaveli joined the Group's board of directors as a new Chief Information Officer.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE AS OF 2023

UK Corporate Governance Code	Status
1. Board Leadership and Company Purpose	3.0
A.: Effective Board	Fully
B: Company purpose and culture	Fully
C: Resources and controls	Fully
D: Engagement with stakeholders	Partly
E: Workforce policies	Fully
2. Division of Responsibilities	5.0
F: Role of a Chair	Fully
G: Independent members	Fully
H: Board effectiveness	Fully
I: Sufficient Board resources	Fully
3. Composition, Succession and Evaluation	3.0
J: Appointment and succession	Partly
K: Combination of skills, re-election	Fully
L: Annual evaluation	Fully
4. Audit, Risk and Internal Control	5.0
M: Effectiveness of audit	Fully
N: Risk disclosure	Fully
O: Internal controls and risk management	Fully

5. Remuneration	5.0
P: Executive remuneration	Fully
Q: Transparent procedure	Fully
R: Independent judgement	Fully
TOTAL SCORE	21.0

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

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

COMMENTS ON COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

D: There is no effective engagement with employees, i.e. in the form of a workforce advisory panel. Thus, the company partly meets this standard.

F: While the Chairman is separate from the Chief Executive, he cannot be considered independent according to UK Corporate Governance Code, as, being the largest individual shareholder, he has served for over nine years on the Board. Nevertheless, within all other criteria, including those related to overall effectiveness in directing the company, promotion of a culture of openness and debate, assessment of the Chairman, and appointment of Senior Independent Director, the company is in compliance with the standards, thus partly meeting the requirement for principle F.

J: Whilst there is a rigorous appointment procedure for members of the Board, there are no succession plans in place, leaving this criterion partly fulfilled.

K: Re-election does not take place on an annual basis. The chair has been appointed for over nine years, although he assumed the renewed role of Chairman of the Supervisory Board in 2023. Crystal does not use any external consultancy for appointing Board members. Therefore, the criterion is partly fulfilled.

crystal

SOCIAL IMPACT REPORT – 2023

ABOUT US

JSC MFO Crystal is a prominent financial inclusion organisation and the largest non-banking financial institution in Georgia in terms of assets. With a loan portfolio of 450 million GEL, workforce of over 1,000 dedicated employees, operations spanning 50 branches, and a wide-reaching customer base of up to 120 thousand individuals across the country, Crystal plays a pivotal role in promoting economic development. Crystal moreover serves as a catalyst for economic progress, delivering innovative financial solutions, including leasing and a range of non-financial services like consulting and technology, all finely tailored to the specific needs of farmers and micro and small entrepreneurs. Crystal is further distinguished as the first Fitch-rated non-banking financial institution in the region, holding a B- Stable Outlook. Furthermore, in 2021, the company earned an A- social rating from MicroFinanza, the Global Rating Agency, reinforcing its commitment to social responsibility. In addition to its financial and social accolades, Crystal has also been honored as the recipient of the Best Annual Report and Transparency Award (BARTA) for four consecutive years in Georgia. This recognition solidifies Crystal's position alongside all systemic financial institutions in Georgia and underscores its commendable progress towards the status of a full-fledged micro bank.

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

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Chair's Statement

Archil Bakuradze
Chair of Supervisory Board

As we celebrate Crystal's 25th anniversary, we are delighted to present the Social Impact Report for the year 2023 to our stakeholders.

At Crystal, we firmly believe that financial services, centered on people, have the power to transform the lives of households and communities. Our mission is to facilitate financial inclusion as a fundamental building block for creating more equal, equitable, and inclusive economies. To achieve this, we have established clear social objectives and implemented a robust system of social performance management. This ensures that we harness our market influence and technology to the fullest extent for the benefit of our customers.

This report is the result of a collaborative effort involving our dedicated colleagues at Crystal, the E&S Committee under the Supervisory Board, and our invaluable partners, who have assisted us in evaluating our social outcomes.

For the first time, we engaged 60_Decibels to conduct an independent quantitative research project, allowing us to benchmark Crystal against its peers among 120+ MFIs. . We extend our gratitude to our long-standing partner, Proparco, for providing the funding required for the inaugural implementation of the 60_Decibel methodology in Georgia.

Furthermore, building upon the insights from 60_Decibels, we organized in-depth focus groups with a representative selection of our customers in key regions. This year, we placed a special emphasis on addressing the challenges faced by internally displaced persons (IDPs). Our stakeholders are well aware of Crystal's historical involvement in supporting the displaced, allowing us to promptly respond to the exodus of Ukrainians, including by offering facilities to start or relocate their micro and small businesses in Georgia.

In addition to our other accomplishments, Crystal has achieved the distinction of issuing the first gender bond in the region under the guidelines of the International Capital Market Association (ICMA). We owe this achievement to the leadership and support of the Asian Development Bank. A remarkable and timely support from the European Bank for Reconstruction and Development also facilitated our acquisition of a third-party opinion from the international rating agency, Scope, which gave our strategy, systems, and business processes the highest assessment, confirming our readiness to contribute to women's economic empowerment.

We take pride in our position at the forefront of innovation in serving small-scale and growing SMEs. Thanks to the support of USAID YES Georgia, Crystal has developed non-financial services, such as consulting, mentoring, and technology access, for aspiring women microentrepreneurs with the potential to elevate their businesses into successful SMEs. We present the outcomes of a Randomized Control Trial that offers deeper insights into the impact of these non-financial services on enterprise growth. This impact is of particular significance as we work toward securing a banking license and expanding into the lower-end SME segment, thereby playing a unique role in strengthening the SME sector in Georgia.

Looking ahead, we are optimistic that obtaining a banking license will better position us to function as a financial inclusion organization and address the gaps identified in this year's assessment. It is noteworthy that ESG taxonomy has become an integral part of the reporting requirements for banks, as mandated by the National Bank of Georgia.

Drawing upon our substantial experience in financing energy efficiency and renewable energy projects at the household and SME levels, we are eager to identify and expand the model for climate-conscious economic revival.

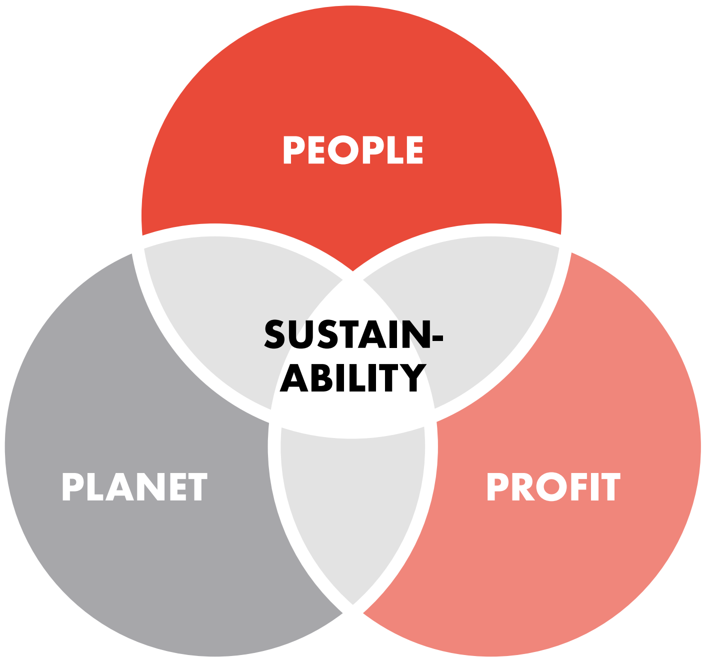
In conclusion, I extend my gratitude to my fellow shareholders, investors, members of the Supervisory Board, our dedicated management team, and the entire Crystal staff, as well as our exceptional partners. Please stay tuned for more updates from Crystal as we continue to scale our environmental and social impact, growing into a stable and high-performing sustainable bank.

This report should be ready in conjunction with the Annual Report 2023 and Crystal's Sustainability Policy.

Crystal's **MISSION is to strengthen entrepreneurs with capital, knowledge and skills**, so that they transform opportunities into wellbeing. By providing Georgian entrepreneurs and individuals with access to financial products and services, and to information, technology and skills, Crystal enables them to create jobs throughout the economy, build assets and improve the standard of living across the country.

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

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



The purpose of this study was to assess Crystal's social impact on its customers.

To this end, a quantitative study was conducted by 60_Decibels, an independent external company, which evaluated six key areas of impact:

1. Access
2. Business Impact
3. Household Impact
4. Customer Protection
5. Resilience
6. Agency

In order to interpret their results in detail, Crystal's marketing department thereafter conducted a qualitative study, in which a special focus was placed on internally displaced customers, in order to determine their specific needs based on a comparative analysis and to assess the social impact of Crystal on this group.

RESEARCH METHOD

Based on the ultimate purpose and objectives of the research, both qualitative research methods, in-depth interviews and focus groups, were selected alongside quantitative telephone survey techniques.

Focus Group Design:

- **Target segment:**
    - I group – Crystal's local customers
    - II group – Crystal's IDP customers
- **Research area –** Tbilisi, Kutaisi, Gori, Zugdidi
- **Sampling method –** Targeted
- **Number of focus group discussions –** 4
- **Total number of respondents –** 22
- **Interview format –** In physical presence
- **Duration –** 90 minutes

In-Depth Interview Design:

- **Target segment:**
    - Crystal's local customers
    - Crystal's IDP customers
- **Research area –** One interview conducted per region, within an in-depth interview framework
- **Sampling method –** Targeted
- **Number of interviews –** In total, 10 interviews were conducted
- **Interview format –** Individual interviews using Zoom and MS Teams
- **Duration –** 30-50 minutes

Demographic Profile of Respondents:

GENDER	
Women	19
Men	13
AGE	
18-30	5
31-45	15
46+	12
STATUS	
Local	15
Displaced	17
EMPLOYMENT TYPE	
Employed	9
Self-employed	21
Total	**32**

Customer Profile of Respondents:

LOAN AMOUNT	
Under 2,000 GEL	12
2,001-20,000 GEL	16
20,001+ GEL	4
LOAN TYPE	
Agricultural loans	7
Fast installment loans	3
Micro business loans	9
Consumer loans	9
Housing loans	4
Total	**32**

Quantitative Research Design:

- **Target segment –** Active Crystal customers
- **Research technique –** Telephone survey
- **Number of interviews –** In total, 288 interviews were completed
- **Research area –** Throughout Georgia
- **Sampling method –** Random sampling
- **Interview duration –** 15 minutes
- **Research error –** 5%

	Sample	Population
GENDER		
Women	58%	59%
Men	42%	41%
AGE		
18-30	15%	9%
31-40	26%	21%
41-50	24%	30%
51+	36%	31%
Unspecified		9%


CRYS
PERFORM
SUMMA
60_DEC

formance Summary by 60_Decibels:

ut This Report

rformance report includes a summary of your across the six dimensions of financial on: access, business impact, household , client protection, resilience, and agency.

re detailed results, please visit your private dashboard. On the dashboard you can find nal insights on client satisfaction, loan usage, allenges. You can also see your results by nt segments including gender and loan type.

To contextualize your results and see how your performance compares to other MFIs across these indicators, we have benchmarked your results here and in the online dashboard. The 60 Decibels Microfinance benchmarks include data across 120+ MFIs. Please note, the data in this report is static and the benchmarks are as of May 2023 whereas the online dashboard benchmarks are consistently updated with new data.

Once we have collected data for all the Microfinance Institutions included in the 2023 60 Decibels MFI Index, we will provide Crystal with an Index ranking in your online dashboard.

act Explained

ibels measures your results across six dimensions of impact, the of these dimensions are summarized below.

:ess	Measures the degree to which Crystal is serving a previously underserved population, the competitive landscape Crystal operates in, and the degree to which you are serving less well-off clients.
:iness Impact	Measures the impact Crystal has on clients' ability to earn income from their business and their ability to employ others.
isehold Impact	Measures the impact Crystal is having on clients' quality of life and their ability to invest or cover household expenditures.
.ent Protection	Measures the degree to which clients are informed of Crystal's loan conditions prior to borrowing and the impact the Crystal has on their ability to manage their finances.
:ilience	Measures the degree to which clients are financially prepared for an unforeseen economic shock, and the impact Crystal has on this preparedness. As well as the degree to which clients are making sacrifices to cover the cost of their Crystal loan repayments.
:ncy	Measures the impact Crystal has on clients' confidence, ability to make decisions about their money, and their ability to achieve their financial goals.

Crystal – Performance Summary by 60_Decibels:

Crystal
Georgia

58%
of clients are female

$2,957
average loan size

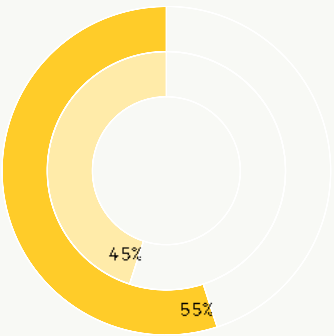
4 years
average tenure of client

35%
have an installment loan

"I renovated my house with the loan and bought a house for my daughter as well." - Male, 63

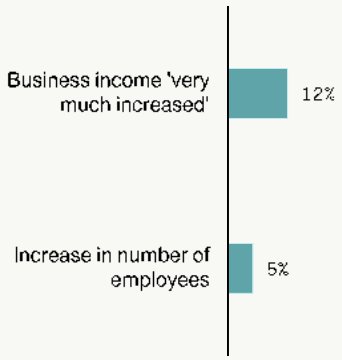
Access

Without access to a good alternative
Accessing a loan for the first time



I am satisfied with the service and also able to pay back the interest."
- Male, 23

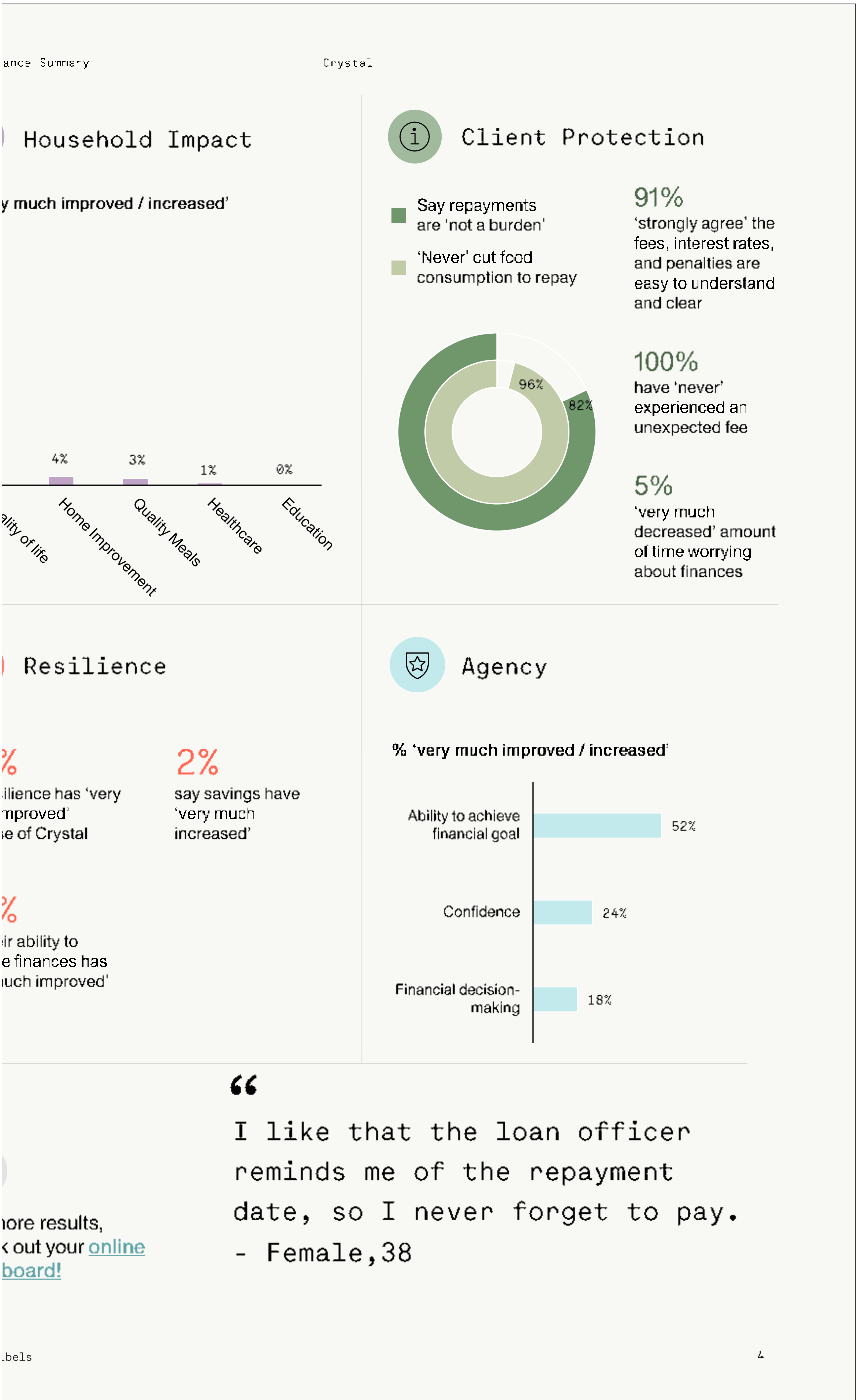
Business Impact



5.0
avg. # of employees before

8.8
avg. # of employees after

formance Summary by 60_Decibels:



ance Summary Crystal

Household Impact

y much improved / increased'

Client Protection

91%
'strongly agree' the fees, interest rates, and penalties are easy to understand and clear

100%
have 'never' experienced an unexpected fee

5%
'very much decreased' amount of time worrying about finances

Resilience

%
ilience has 'very nproved'
e of Crystal

2%
say savings have 'very much increased'

%
ir ability to
e finances has
nuch improved'

Agency

% 'very much improved / increased'

“

I like that the loan officer reminds me of the repayment date, so I never forget to pay.
- Female,38

nore results,
k out your online
board!

.bels 4

Crystal – Performance Summary by 60_Decibels:

Performance Summary Crystal

Detailed Crystal Benchmark Performance

Performance Relative to Benchmark compares the Crystal performance with the 60 Decibels Microfinance Benchmarks which includes 122 Microfinance Institutions and 36,236 clients.

●○○○○ BOTTOM 20%
●●○○○ BOTTOM 40%
●●●○○ MIDDLE
●●●● TOP 40%
●●●●● TOP 20%

Indicator	Description	Crystal	60dB MFI Benchmark	Performance Relative to 60dB MFI Benchmark
Access				
First Access	% accessing for the first time	45%	57%	●●○○○
Alternatives	% without access to good alternative	55%	57%	●●●○○
Equitable Access	Inclusivity Ratio	-	0.64	-
Business Impact				
Income	% seeing 'very much increased' income	12%	23%	●●○○○
Employment	% increasing no. of paid employees	5%	9%	●●○○○
Household Impact				
Quality of Life	% 'very much improved' quality of life	26%	32%	●●○○○
Home Improvement	% 'very much increased' household spending on home improvement	4%	14%	●○○○○
Education	% 'very much increased' household spending on education	0%	12%	●○○○○
Healthcare	% 'very much increased' household spending on healthcare	1%	6%	●○○○○
Quality Meals	% 'very much increased' number and quality of meals	3%	13%	●○○○○
Client Protection				
Repayment Burden	% saying repayments 'not a problem'	82%	65%	●●●●●
Consumption Sacrifice	% who 'never' cut food consumption to make repayments	96%	80%	●●●●●
Loan Understanding	% 'strongly agree' penalties, fees, and interest rates are clear	91%	71%	●●●●●
Unexpected Fee	% who say 'no, never' to experiencing an unexpected fee*	100%	94%	●●●●●
Financial Worry	% 'very much decreased' time spent worrying about finances	5%	18%	●○○○○
Resilience				
Crystal Role in Resilience	% 'very much improved' resilience thanks to MFI	27%	18%	●●●●○
Savings	% 'very much increased' savings	2%	14%	●○○○○
Financial Management	% 'very much improved' ability to manage finances	21%	24%	●●○○○
Agency				
Decision making	% 'very much increased' ability to make financial decisions*	18%	28%	●●○○○
Confidence	% 'very much increased' confidence in self and abilities*	24%	35%	●●○○○
Financial Goals	% 'very much improved' ability to achieve financial goal	52%	26%	●●●●●

*These are new metrics, so Benchmarks are based on only 60 companies.

formance Summary by 60_Decibels:

hodology

he 60 Decibels Methodology

2023, 60 Decibels' trained hers conducted 288 phone interviews ystal loan clients. The clients were ily selected from a random sample of s client database. Our results are ntative of Crystal's clients who had le contact information and have ted at least one loan cycle. Here is the own of how we collected this data:

Country	Georgia
Contacts Shared	2,426
Interviews Completed	288
Response Rate	52%
Languages	English, Georgian
Average Survey Length	15 mins
Confidence Level	95%
Margin of Error	5%

ations and Definitions

se who like to geek out, here's a ry of some of the calculations we this report.

	Calculation
ity Ratio	The Inclusivity Ratio is a metric developed by 60 Decibels to estimate the degree to which an organization is reaching less well-off clients. It is calculated by taking the average of Company % / Country %, at the $1.90, $3.20, and $5.50 lines for low income and low-middle income countries, or at the $3.20, $5.50 and $8.00 lines for middle income countries. The formula is:

$$\sum_{x=1}^{3} \frac{\text{([Company] Poverty Line \$x)}}{\text{(Country Poverty Line \$x)}} / 3$$


QUALIT
RESEARCH
KEY FIND

Impact of Loans on Quality of Life:

The quality of life has improved significantly

Crystal loans have positively impacted the quality of life of its customers. According to the qualitative research, the realisation of a client's goals and desires was the main indicator affecting the improvement of their quality of life, and significant importance was placed on Crystal's role during this process. Consequently, under the quantitative study, 86% of respondents confirmed that their quality of life had improved after receiving a loan – where achieving their own goals was perceived as an improvement to the quality of life:

> *In my life, the best thing that's happened is thanks to Crystal. I was able to do something, I built a house in a very good place, I have a very nice restaurant, this is thanks to Crystal, this is a fact.* (Kutaisi, woman)

> *It had a great impact, I did my job, I didn't 'waste' the money – I used it and did 80% of what I wanted.* (Dusheti, man)

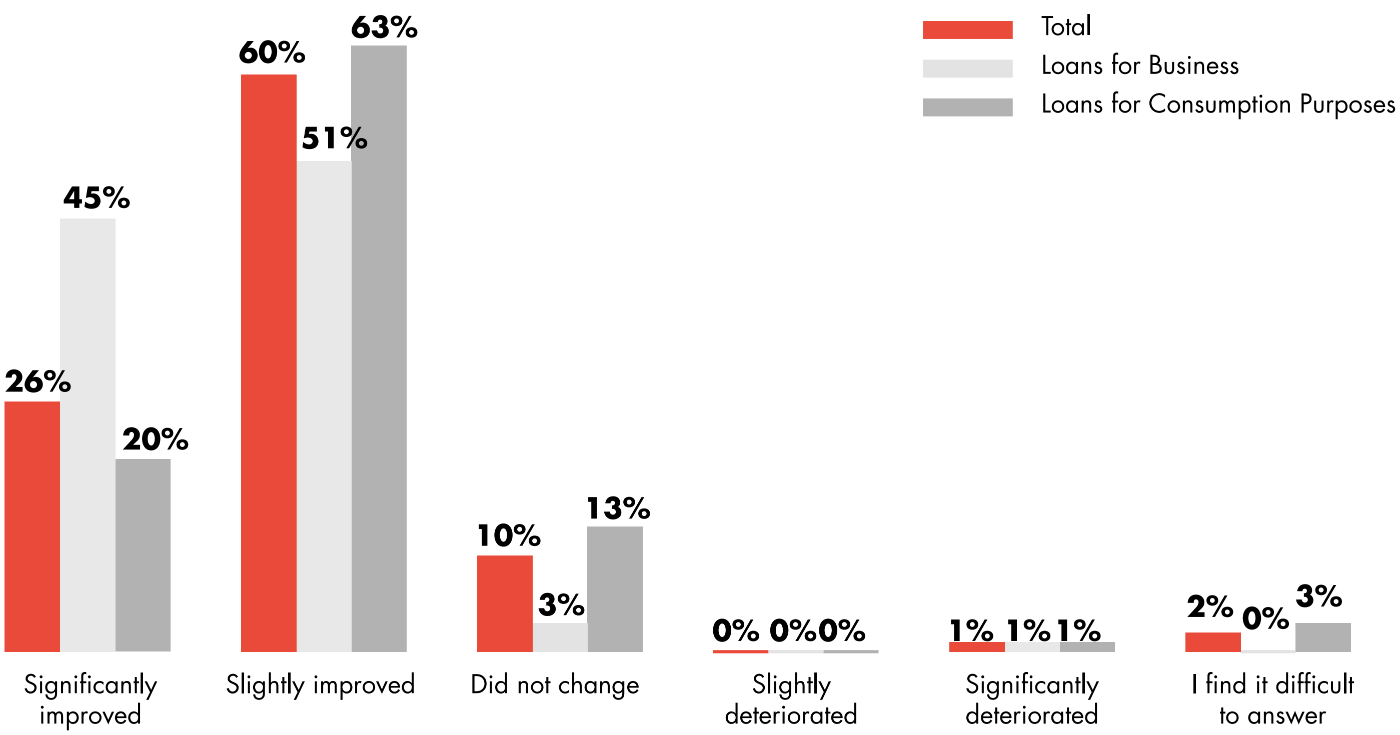
Moreover, customers who have used a Crystal loan to raise their income rated its impact on quality of life much more positively (45%) than those who used a loan solely for consumer purposes (20%).

> *I bought construction-repair tools. It had a positive impact; I didn't hope to buy them, but they approved it. My income increased. I use the things and work.* (Gori, man)

> *I used the loan for what I wanted... my income exceeded, of course, the amount I paid the bank.* (Tbilisi, woman)

Only a rather small proportion of 1% assessed the impact of their loans on quality of life negatively. This particular segment mentioned that it was necessary to make further savings in their daily life.

Quality of Life



Impact of Loans on Businesses:

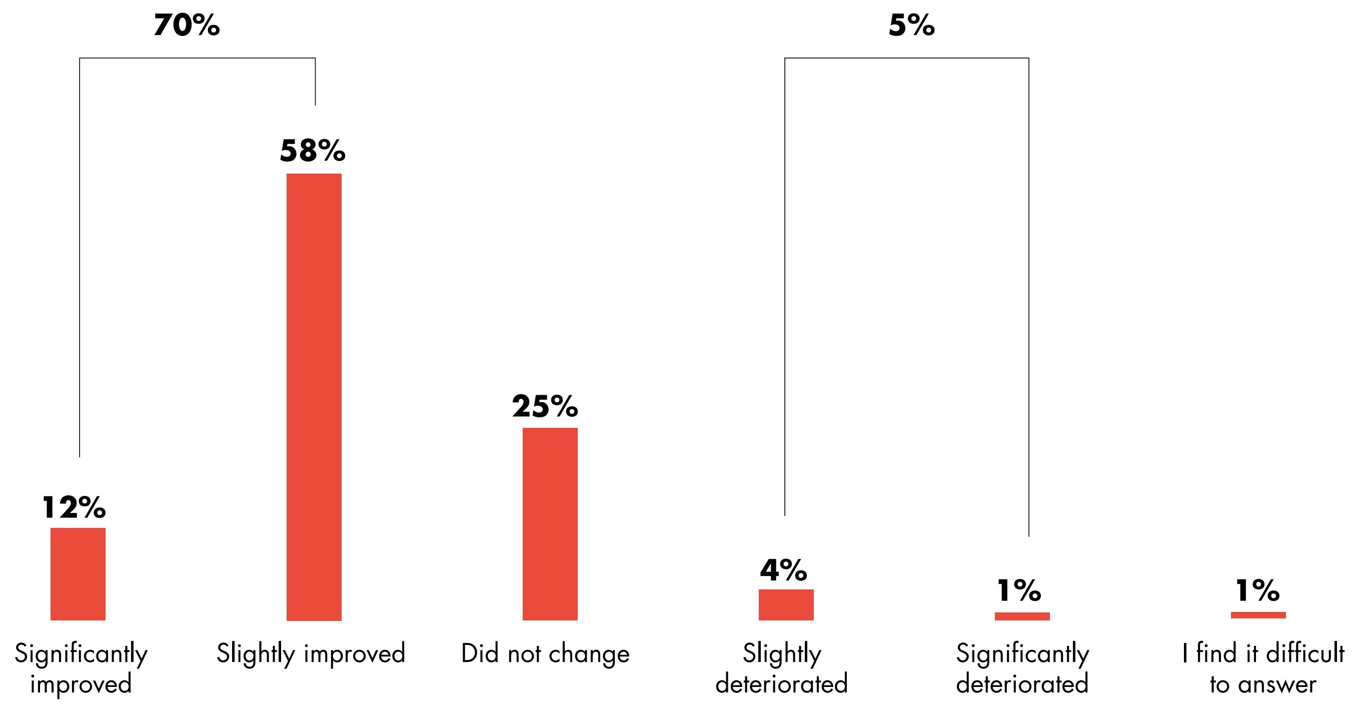
Crystal loans led to an increase in business income

In total, 70% of the respondents who used a business loan increased their income after cooperating with Crystal. It also is worth noting that when discussing their businesses, they attached great importance to the role of Crystal and considered it a contributing factor to their success:

> *[The business] increased my income... I applied and received the money quickly. Of course, there is a great part of Crystal in that.* (Kobuleti, man)

> *Working conditions improved; I bought tools, repaired what needed to be repaired. This also increased my income.* (Rustavi, man)

Business Income



Impact of Loans on Self-Perception:

It had a particularly positive impact on the female segment

According to both the quantitative and qualitative research, the loans affected the clients' personal characteristics:

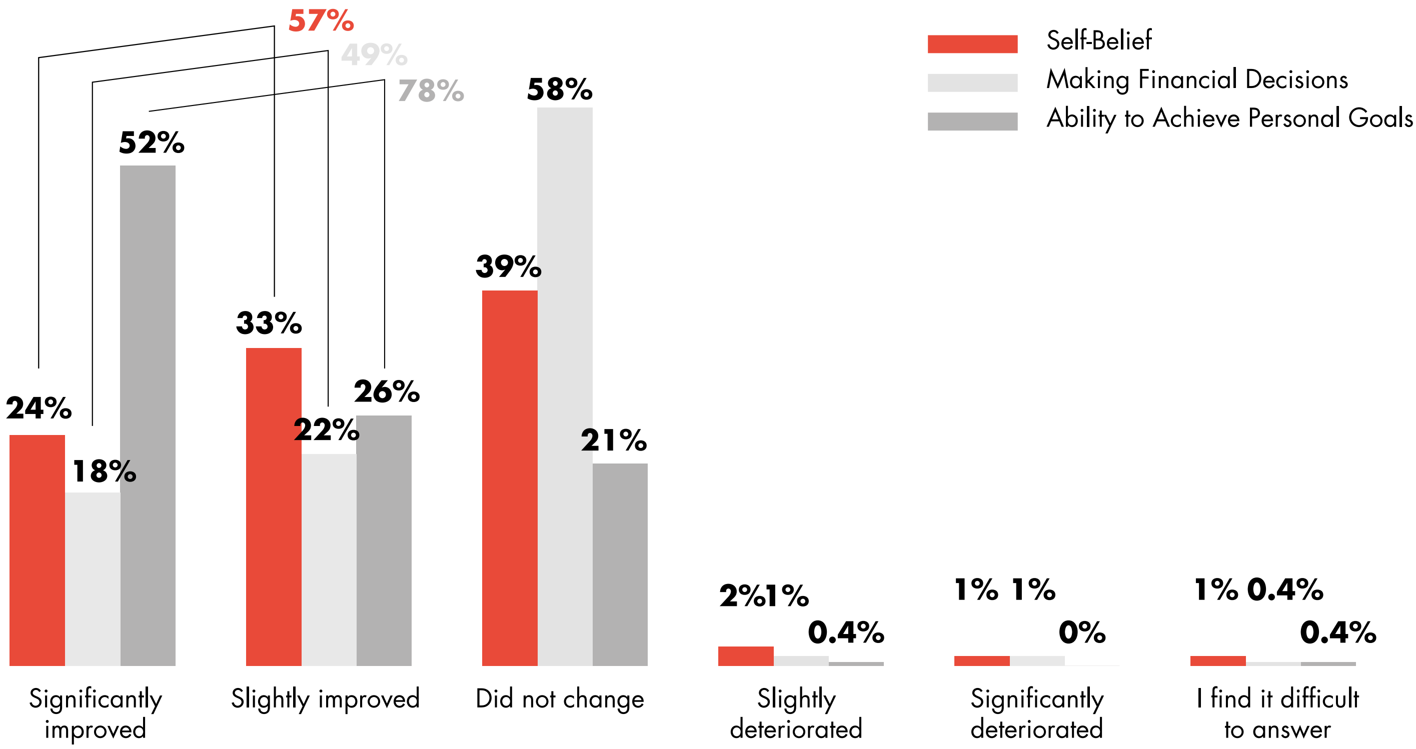
- 57% of customers reported feeling more confident after borrowing from Crystal.
- 78% confirmed that their ability to achieve their goals improved after cooperation with Crystal.
- 40% of respondents make independent financial decisions more often.

Since loans are associated with responsibility, overcoming certain difficulties and fulfilling obligations, they can affect the perception of an individual's own capabilities; and this trend was more pronounced for of women. Under the quantitative data, 44% of women (34% of men) currently make more independent financial decisions, 58% (55% of men) have higher self-esteem, and 40% (28% of men) reported that their ability to achieve goals was improved after cooperation with Crystal:

> *My self-esteem has increased, because somehow I am proud of paying this loan... somehow I like the fact that I manage all this by myself, alone and without anyone's help.* (Kutaisi, woman)

> *I already have hope for myself. I have changed, I have to pay because I have a responsibility. I became more active; I went towards strength. You have to pay for all of these; you have to work and earn more. I have become more confident in myself.* (Gori, woman)

Personal Characteristics



Impact of Loans on Stress Levels:

30% of users experienced a reduction in stress

Around 30% of the respondents confirmed that they have been less worried about finances since cooperating with Crystal. Notably, increased income and the opportunity to raise funds were mentioned as a consequence of this change:

> *I don't feel any stress and I don't experience it. On the contrary, because of what I couldn't buy and do before, due to finances, now I can enjoy every year, even with instalments, even with a different type of loan.* (Gori, woman)

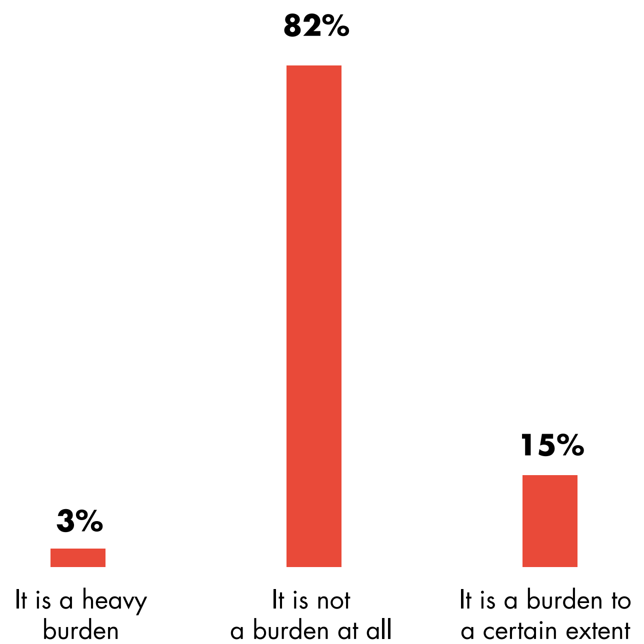
Of the respondents, 15% consider their Crystal loan to be a burden, that associated with stress and tension in itself. This is due to debt repayment stress, frugal spending, difficulty meeting healthcare costs, and interest payments:

> *There are times when I don't have this amount and that moment of searching for it is very stressful for me.* (Tbilisi, woman)

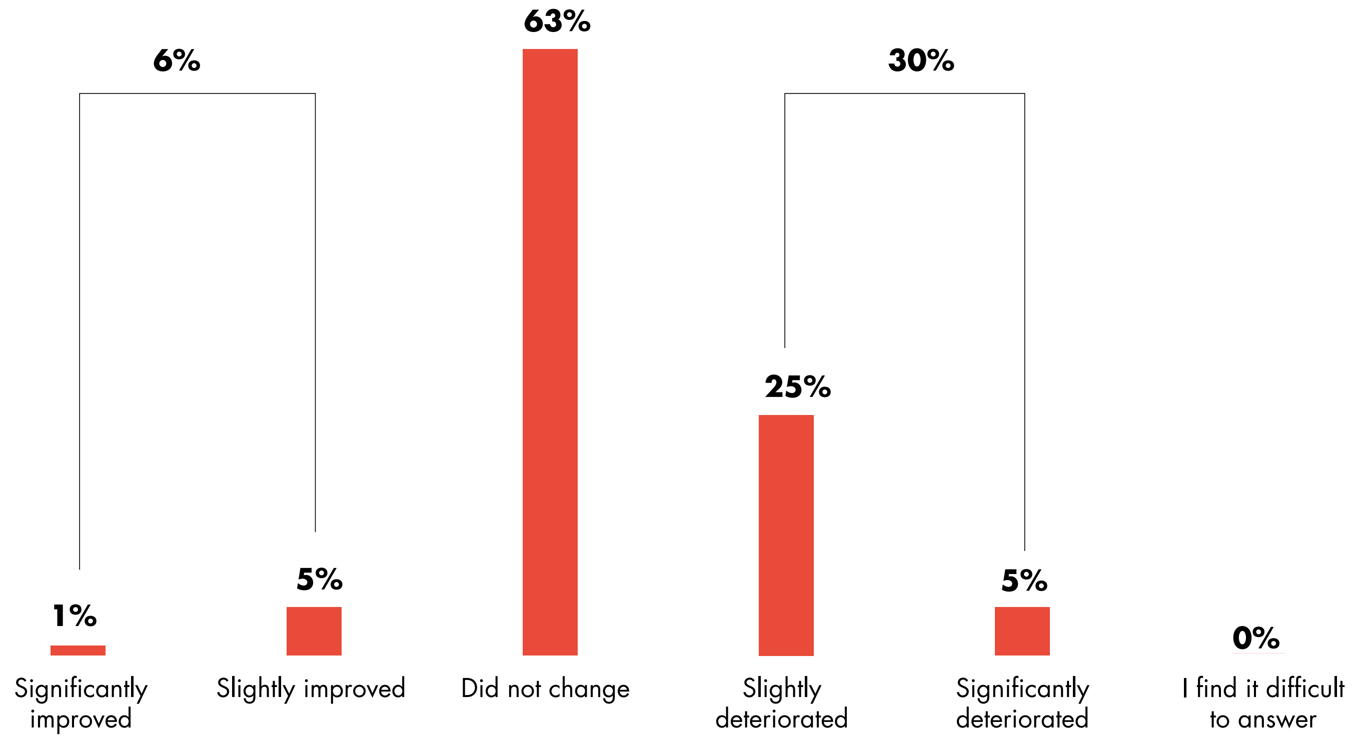
> *Stress has increased, because we can hardly approach the medical field. Recently I was forced to undergo some medical treatment, and it is related to such amounts that it's just very difficult financially.* (Tskaltubo, woman)

> *The stress is that my heart breaks. I remember that so little of my sum goes to the principal amount and so much goes to interest. That is what I am worried and stressed about.* (Tbilisi, woman)

Perception of Crystal's Loan



Time Worrying about Finances



Internally Displaced Persons:

5

Experience stress less and invest in business more often

The qualitative research identified certain differences between the consumer behaviour of local and of internally displaced respondents, largely due to their past experiences related to the wars of 1992-1993 and 2008.

One tendency identified that, compared to local customers, IDPs do not consider loans to be as great a stress-provoking factor – they typically reported that their stress levels decreased or did not change at all. It appears that as they have faced and overcome much greater difficulties, loans are no longer a stress-determining trigger for them. Moreover, IDPs invested their loans into businesses in order to gain financial independence, therefore, due to improvements in the economic situation, they experienced stress less.

Another trend was identified in that internally displaced persons prefer to save at home, whereas locals prefer to save within a deposit. This appears to be based on war-related experiences, alongside the supposed risk of losing aid for displaced persons, which, according to the respondents, may be prompted by opening a deposit:

> *In 2008, during the war, they could not withdraw money, the first, second, third day, and then it froze. It is true that after that it was restored as usual, but if something were to continue, this amount would already have been lost. If I make a saving, I will keep it at home.* (Tbilisi, woman)

Highlights of the Social Impact Study:

After cooperation with Crystal, the financial capabilities of customers improved, specifically:

- **86%** of respondents have an improved quality of life
- **30%** of consumers are less worried about their finances
- **31%** of customers would be able to access **15,000 GEL** easily
- **61%** of respondents have improved their ability to cope with large expenses

Crystal loans had a significant positive impact on customers' self-perception, namely:

- **57%** of respondents have become more self-confident
- **40%** of clients now make financial decisions more easily
- **78%** of customers have an enhanced ability to achieve their goals

Of the business customers, **70%** have seen an increase in business profit.

On a 10-point scale, **9.1** points was identified as the recommendation point, thereby indicating that users have very positive experiences with Crystal:

- **96%** of customers believe the amounts paid to Crystal are easy to understand
- **99%** of respondents are fully informed about payments, and they have never been charged unexpectedly
- **94%** of respondents have never had a problem with the service

THEMATIC BLOCK 1: MENTORING WOMEN ENTREPRENEURS – RCT RESEARCH

The Randomised Controlled Trial study conducted by Crystal, and its wholly owned subsidiary LLC Crystal Consulting, aimed to assess the impact of the business mentorship services provided by Crystal Consulting on the performance and growth aspirations of businesses in Georgia. The study had several key objectives:

1. **Evaluating the Effectiveness of Mentoring**: The study sought to measure the effectiveness of the mentorship provided by Crystal Consulting in improving various aspects of businesses, including business performance, financial funding and prospects for growth.

2. **Understanding the Role of Consulting Services**: It aimed to explore the perceived value of the consulting services, particularly in the context of raising funds amongst businesses that received mentorship and those that did not.

3. **Identifying Factors Influencing Business Improvement**: It sought to identify other contributing factors, besides mentorship, that affect improvements within business performance.

4. **Assessing Growth Aspirations and Confidence**: The research investigated growth aspirations amongst businesses as well as their confidence towards achieving rapid growth over the next three years.

5. **Quantifying the Impact of Confidence Mentorship on Growth**: It aimed to understand how mentorship affects the perception of businesses' ability to achieve rapid growth, and to measure if there is a statistically significant difference in the perceived ability to grow between mentored and non-mentored businesses.

Methodology:

The study employed a Randomised Controlled Trial design, which is known for its rigorous impact assessment. Participants were randomly assigned to different treatment groups to assess the influence of consulting and mentorship on businesses. The study thereafter carefully selected businesses that had not been mentored, matching them with the characteristics of the mentored group to ensure representative results.

The research subsequently used quantitative methods to compare the businesses mentored by Crystal Consulting with those that had not received any mentorship. This approach allowed for a comparative analysis of the impact and value of consulting and mentorship for businesses with similar characteristics. The RCT methodology and sample matching were thereafter used to establish causal relationships between the treatment (consulting and mentorship) and the observed outcomes.

A telephone survey was conducted between April-May 2023, generating 202 responses, with 100 from the mentored group and 102 from the non-mentored group.

Limitations:

The study interviewed 202 respondents, including 100 mentored businesses and the remainder without Crystal Consulting services or mentorship. The relatively small sample size may limit its ability to capture the full diversity of businesses in the target population, thus potentially affecting the extent the findings can be generalised.

Key Findings:

An updated summary of the findings from the RCT research, incorporating additional information and comparing both mentored and non-mentored women entrepreneurs in Georgia, is as follows:

Company Operation Duration and Mentorship

- A significant percentage of both mentored (35%) and non-mentored (59%) companies have been operating for more than five years.
- In the mid-term range (3-5 years), 34% of mentored companies have been operational within this timeframe, compared to only 17% of non-mentored companies.
- Mentorship seems to contribute to sustaining business operations, with more mentored businesses in the mid-term range, and a higher percentage of non-mentored businesses being unregistered physical entities.

Loan Source Selection and Amounts in Mentored vs. Non-Mentored Establishments

- Mentored establishments primarily borrowed from commercial banks (45%) and microfinance organisations (52%).
- Non-mentored establishments relied less on commercial banks (37%) and to a greater extent on microfinance organisations (63%).
- Both groups preferred smaller loans, with the majority borrowing up to 5,000 GEL.

Interest Rates and Collateral Requirements

- Mentored businesses predominantly reported interest rates between 10% and 20%, where the majority did not require collateral for their loans.
- Non-mentored establishments primarily reported rates between 15% and 20%, with the majority not requiring collateral, suggesting the potential influence mentorship has on accessing loans with more favourable terms.

Investment Raising and Leasing Services

- A small percentage in both the mentored and non-mentored groups reported raising investments or using leasing services within he last three years, thus indicating that mentorship does not significantly impact these aspects.

Access to Finance as an Obstacle

- A significant number of respondents from both groups perceive access to finance as a hinderance to their business development, with the larger proportion of mentored respondents considering it a significant obstacle.

Revenue Changes

- A larger share of mentored businesses (19%) reported significant increases in their annual revenue than non-mentored businesses (11%), thus signifying a positive correlation between mentorship and revenue growth.

Desire and Ability for Rapid Growth

- Both mentored and non-mentored businesses expressed a strong desire for rapid expansion over the next three years.

- A slightly larger percentage of the mentored group rated their ability for quick expansion to be high, suggesting that mentoring may boost the confidence for achieving rapid growth.

Signs of Improvement

- Improvements in business performance are not solely dependent on mentorship, with positive changes reported by businesses in both groups.

- Mentorship enhances the perceived value of consulting services, particularly towards raising finances.

- Mentorship positively correlates with more formal business practices and financial planning, and it encourages innovation.

In conclusion, this analysis reveals that mentorship plays a significant role in various aspects of business performance. Although the desire for growth is inherent to businesses, mentorship contributes to improved financial awareness, additional employment, access to finance, and the adoption of better business practices. It moreover underscores the multifaceted nature of business success, alongside the value of mentorship in fostering growth and enhancing business practices.

THEMATIC BLOCK 2: GENDER BONDS

In February 2023, Crystal issued two-year certified gender bonds in the amount of 25 million GEL. The transactions aimed to increase access to funding for women entrepreneurs by financing their micro-, small- and medium-sized businesses, promoting gender equality, and by offering economic empowerment to women in Georgia.

The bonds were issued through the capital market support program, initiated under the support of the European Union and the European Bank for Reconstruction and Development. As part of the program, Crystal was studied and evaluated by Scope, an independent credit rating company, which rated the company’s social and environmental framework as Transformative – the highest level. This recognition provided the additional opportunity for Crystal to receive a significant grant from the European Bank for Reconstruction and Development to finance transaction costs.

Within the process, the issue broker was Galt & Taggart, while both the Asian Development Bank and the Bank of Georgia invested in the bonds.

Assessment by the rating agency Scope:

29 September 2023 ESG Analysis

Second-Party Opinion
JSC MFO Crystal

Georgian Microfinance Organisation

Scope ESG Analysis has assessed the alignment of the Social Bond Framework (Framework) of JSC Microfinance Organization Crystal (Crystal) with the 2021 Social Bond Principles (SBP) of the International Capital Markets Association. Scope ESG's assessment reveals that Crystal's Framework is fully aligned with the SBP.

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Figure 1: Crystal's Social Framework Assessment

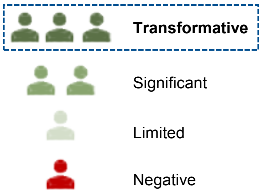

Figure 2: Alignment with United Nations Sustainable Development Goals

Framework assessment across Scope's criteria

Scope's criteria	Crystal Framework description	Scope ESG Assessment
Use of proceeds	• Access to essential services • Employment generation through SME finance and microfinance • Socioeconomic advancement and empowerment	ICMA-aligned
Process for project evaluation and selection	• Members of Crystal's business team will analyse the women owned MSMEs on environmental and social factors as well as revenue streams • Detailed exclusion criteria for loans	ICMA-aligned
Management of proceeds	• Proceeds documented and updated in a sub-account managed by Crystal and tracked using ALTA software	ICMA-aligned
Reporting	• Annual reporting of allocation of proceeds until full allocation • Impact metrics include reporting on number of WMSME borrowers, number of climate-related loans and borrowers in rural areas	ICMA-aligned
Overall sustainability strategy	• Crystal's sustainability strategy focuses on three pillars with quantitative targets for microfinance lending on People, Planet and Profit	Transformative
Impact assessment	• Crystal's projects support MSME financing to reduce Georgia's finance gap • Targeting women shall contribute to employment generation, gender equality and poverty reduction	Transformative
ESG Management risks	• Crystal has implemented an environmental and social management system to identify and mitigate risks	Transformative

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Bloomberg: RESP SCOP

CRYSTAL – PROUD SUPPORTER OF WOMEN ECONOMIC EMPOWERMENT

Significant CSR projects of 2023:

The women's empowerment program USAID YES-Georgia (Supporting youth and women entrepreneurship in Georgia) and its women's components - Buzz Georgia and Crystal Consulting, launched in 2020 by Crystal, with the financial support of the USAID Georgia and in partnership with the Buzz Women Global. The program has already strengthened around 2,000 women.

- By enhancing and motivating the personal and entrepreneurial skills of 2,000 women entrepreneurs, Crystal has strengthened 1,500 Georgian families, as well as 5,000 of their family members in up to 30 villages and towns, thereby contributing to the establishment and growth of local self-reliance throughout Georgia.
- Around 200 training sessions have been conducted across Georgia – in both online and offline, face-to-face modalities. These covered the following regions of Western Georgia: Imereti, Samegrelo, Guria, Racha and Lechkhumi.
- Around 100 of the trained female entrepreneurs participated in the USAID annual New Year and Christmas sale exhibition in December. While presenting their goods to hundreds of guests and visitors, they were able to sell products worth tens of thousands of GEL in Tbilisi's Dedaena Park.
- During the project, over 5,626 young people (3,888 girls and 1,738 boys) participated in the USAID YES-Georgia Young Entrepreneurs' School. Approximately 1,500 young people successfully completed the entrepreneurship training – Crystal also financed 96 young entrepreneurs (55 girls and 41 boys), with 64 businesses now successfully and continuously operating.

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

- In 2022, with the technical assistance of Crystal's international partner, Finance in Motion managing EFSE/GGF, we carried out a gap analysis of Crystal's environmental and social (E&S) systems, policies, organisational capacity and its procedures; a revision of its sustainable finance rules; the development of an action plan; and the implementation of the strategy based on Crystal's weaknesses and strengths.
- Future implementation of the action plan and strategy will enable Crystal to introduce a comprehensive system for sustainable development and to meet the universal standards for environmental and social management systems.

Successful Partnership with DWM and MSC MicroSave Consulting

Successful partnership with DWM and MSC MicroSave Consulting As part of the successful partnership, gaps were identified in climate impact assessment and climate risk management, and key recommendations were drawn.

Successful Cooperation with the German Sparkasse Foundation

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

Educational Activities

As part of Global Money Week 2023, the company held training sessions on the importance of saving and money security features, as well as the use of techniques and devices for checking banknotes for students at its partner university, for the young people participating in the internship program and for members of the sales team. This instruction will greatly assist their ability to identify counterfeit money and to take appropriate preventive measures.

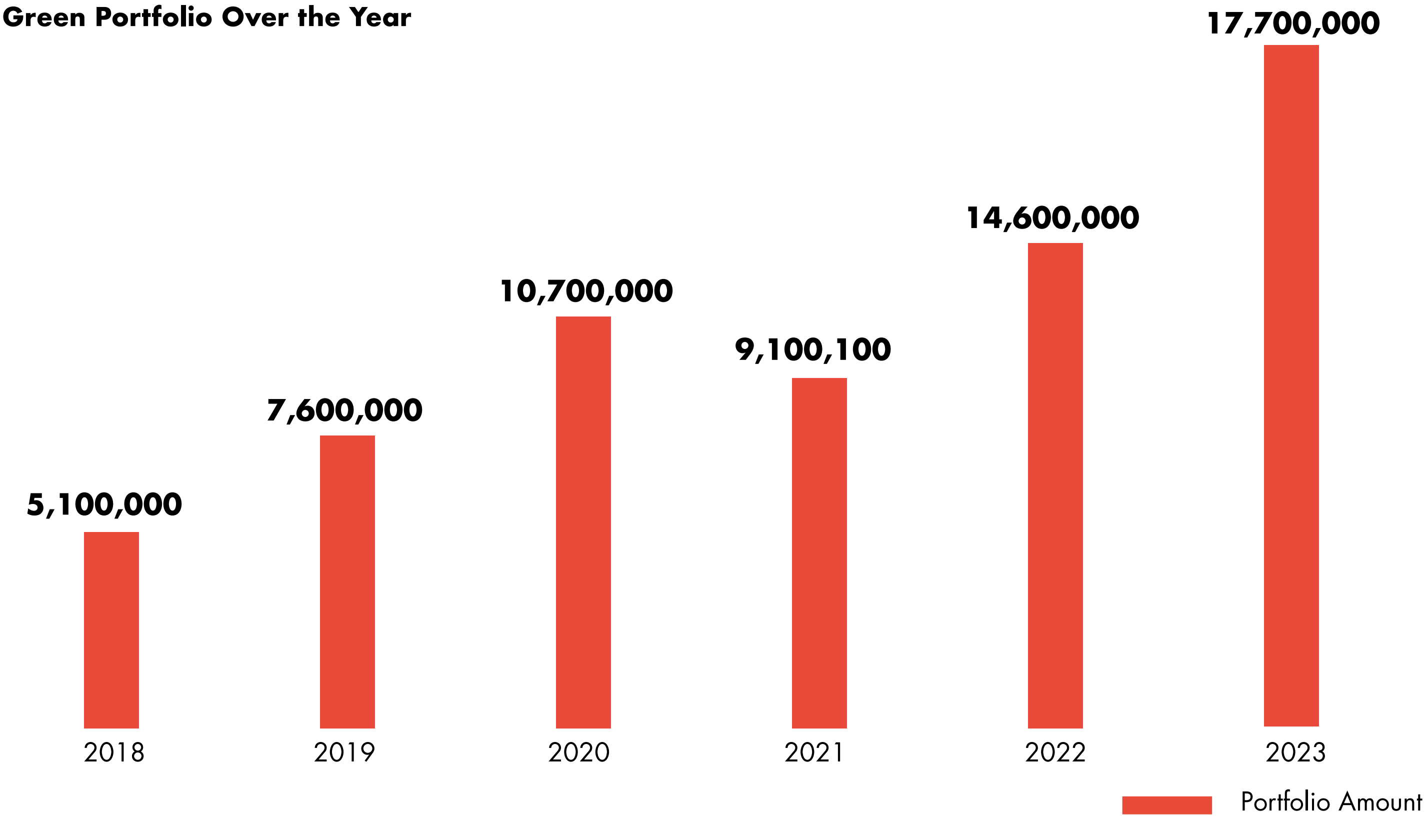
ENVIRONMENTAL IMPACT

- **From 2018 to 2023**, more than **50,000 green loans** or instalments have been issued within the green financing framework, amounting to more than **88 million GEL.** As a result of green lending, the positive impacts on the environment are assessed as follows: from 2018 to date, more than **20 million** kWh of energy have been saved and more than **3** million tons of CO2 have been prevented through Crystal's green issuance.
- As a result of green lending, the positive impacts on the environment are assessed as follows: from 2018 to date, more than 18 million kWh of energy have been saved and more than 2.6 million tons of CO_2 have been prevented through Crystal's green issuance.

From 2018 to date, the green financing portfolio has maintained an upward trend:

Throughout 2023:
- **4,473,500** (kWh) of energy was saved
- Emission of **691,000** kg of CO_2 was prevented to the environmentt

Green Portfolio Over the Year



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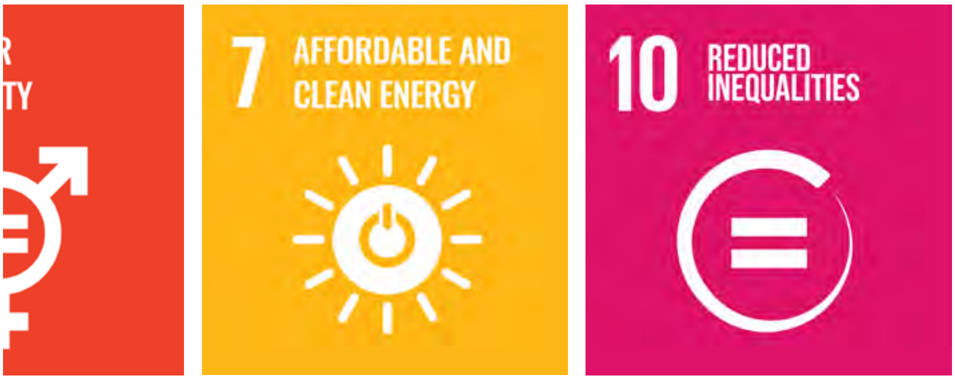
GO

As part of its strategic planning exercise, Crystal has decided to reduce the number of SDGs that it targets. We have therefore identified three SDGs, with their respective targets and indicators, against which we shall track our progress and report on within subsequent Sustainability Reports.

SDG 5: Achieve gender equality and empower all women and girls

Target 5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life	**Indicator 5.5.2** Proportion of women in managerial positions
Target 5.4 Recognise and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate	**Indicator 5.4.1** Proportion of time spent on unpaid domestic and care work, by sex, age and location
Target 5.a Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws	**Indicator 5.a.1** (a) Proportion of total agricultural population with ownership or secure rights over agricultural land, by sex; and (b) share of women among owners or rights-bearers of agricultural land, by type of tenure



SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all

Target 7.1

By 2030, ensure universal access to affordable, reliable and modern energy services

Indicator 7.1.2

Proportion of the population with primary reliance on clean fuels and technology

Target 7.2

By 2030, substantially increase the share of renewable energy in the global energy mix

Indicator 7.2.1

The share of renewable energy in total final energy consumption

Target 7.3

By 2030, double the global rate of improvement in energy efficiency

Indicator 7.3.1

Energy intensity measured in terms of primary energy and GDP

SDG 10: Reduce inequality within and among countries

Target 10.1

By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average

Indicator 10.1.1

Growth rates of household expenditure or income per capita among the bottom 40 per cent of the population and the total population

Target 10.c

By 2030, reduce to less than three per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than five per cent

Indicator 10.c.1

Remittance costs as a proportion of the amount remitted


FUTURE P

Further Improve the Strategic Framework and Better Incorporate the SDGs

1

In 2024, Crystal aims to revise its Environmental and Social strategy goals and to establish clear connections between the goals and the selected SDGs. Furthermore, the E&S impact will be incorporated into the management's KPIs.

Social Performance Management

2

Whilst we take pride in our strong track record of customer protection and of increased confidence, we have noticed a decrease in our impact on both businesses and households in 2023. This signals a clear requirement for Crystal to increase its investments into a more impactful SME portfolio. In pursuit of this goal, obtaining a banking license and implementing a new SME strategy, one which focuses on enhanced SME access to knowledge, technology and markets, should be our focus. These initiatives should moreover be designed to address the unique needs of those small enterprises that are currently underserved by mainstream commercial banks.

In addition, the banking license will also support us in improving our Savings and Financial Management metrics.

As a company with a heritage deeply rooted in migration, and a history of addressing the various challenges arising from conflict and displacement, we are committed to maintaining our focus on providing support for IDPs, on fostering confidence-building initiatives, and on expanding our services to cater for migrants from Ukraine and other countries.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Assessment by the rating agency Scope:

29 September 2023 | ESG Analysis

Second-Party Opinion JSC MFO Crystal

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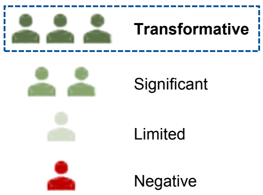

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Bloomberg: RESP SCOP

Assessment by the rating agency Scope:

SCOPE

Second-Party Opinion

Crystal Social Bond Framework

Methodology

We were commissioned by the issuer to provide a second-party opinion on its Framework. We based our opinion on:

- Crystal's internal documents
- Interviews with Crystal's relevant stakeholders
- Documents on external market/regulatory research
- Data from our internal database

The human score summarises our evaluation and verification of the social impact of Crystal's Framework. The described targets within each of the social project categories lead to individual human scores. In the case of multiple projects defined by an issuer, the aggregate of the scores yields the overall score of our second-party opinion report.

The overall Framework score is an average of the performance across all dimensions and ranges from non-alignment with the SBP (one red human) to complete alignment with the SBPs and transformative social contributions (three green humans). The assessed ambition level within the defined social project categories qualifies for the respective human scores.

Our minimum requirement for SBP alignment is that each social project category of the Framework has a positive social impact, as represented by at least one green human.

Scope ESG scoring	Description	Crystal's projects	Project criteria
Transformative	Transformative social contribution, full alignment with ICMA's SBP and exemplary project alignment with the industry's key impact objectives	Access to essential services	All projects (e.g. financial services) are directly tied to facilitating access for disadvantaged groups, including a definition of relevant target groups and reference to specific access conditions
		Employment generation through SME finance and microfinance	All projects target geographical and/or social environments with proven limited access to the labour market and detailed description of consumer protection measures to overborrowing/over-indebtedness
		Socioeconomic advancement and empowerment	Transformative socioeconomic impact by allocating entire proceeds to advance disadvantaged target groups. Projects are linked to a long-term oriented empowerment strategy
Significant	Significant social contribution, full alignment with ICMA's SBP, and project alignment to industry impact objectives in line with market practice	Access to essential services	Most of the projects are directly tied to facilitating access for disadvantaged groups, including a definition of relevant target groups and reference to specific access conditions
		Employment generation through SME finance and microfinance	Most of the projects target geographical and/or social environments with proven limited access to the labour market
		Socioeconomic advancement and empowerment	Significant socioeconomic impact by allocating entire proceeds to advance disadvantaged target groups
Limited	Alignment with ICMA's SBP but insufficient quantifiable impact metrics and limited alignment to industry impact objectives compared with market practice	Access to essential services	Most of the projects are directly tied to facilitating access for disadvantaged groups, including at least a qualitative definition of relevant target groups and reference to specific access conditions
		Employment generation through SME finance and microfinance	Most of the projects target geographical and/or social environments with expected limited access to the labour market
		Socioeconomic advancement and empowerment	Significant socioeconomic impact by allocating most of the proceeds to advance disadvantaged target groups
Negative	No significant or negative social impact; no or only partial alignment with ICMA's SBP and insufficient alignment to industry impact objectives	Access to essential services	A non-quantified or limited share of projects is directly tied to facilitating access for disadvantaged groups, insufficient definition of relevant target groups or reference to specific access conditions
		Employment generation through SME finance and microfinance	A non-quantified share of projects targets geographical and/or social environments with expected limited access to the labour market
		Socioeconomic advancement and empowerment	Limited socioeconomic impact due to insufficient allocation of proceeds to advance disadvantaged target groups

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Introduction

Crystal's clients are low-income borrowers in rural areas of Georgia

Joint Stock Company Microfinance Organization Crystal (Crystal) is the largest and oldest microfinance institution (MFI) in Georgia, operating since 1997. It acts as a platform for economic development for micro and small entrepreneurs, as well as farmers, providing them with financial products and value-added services. The company offers a wide range of financial products such as credit, climate-related financing, leasing, money transfers, e-wallet, foreign exchange, and insurance. In addition, Crystal offers non-financial products, contributing to financial inclusion beyond access to credit.

Crystal manages a loan portfolio of GEL 388m, employing more than 1,000 people and serving more than 150,000 customers across 13 regions in Georgia through 50 physical branches and digital channels. The company's focus is on low-income borrowers with informal income located in rural areas of Georgia outside the capital Tbilisi. As of December 2021, 62% of Crystal's borrowers were women. Crystal's portfolio of clients operate and have income from different sectors and sources, specifically 29% in services, 26% in agriculture, 17% in small trade and production, 15% earn formal salaries and 10% send remittances.

Crystal's institutional shareholders are Incofin IM and Developing World Markets. The company also cooperates with up to 25 lenders (Microfinance Investment Vehicles (MIVs), International Financial Institutions (IFIs), Development Financial Institutions (DFIs) and Georgian commercial banks).

The company has three wholly owned subsidiaries: JSC Crystal Leasing, a provider of fixed-assets financing to MSMEs and farmers, LLC Crystal Consulting, in charge of delivering training, mentoring services and digital applications to high growth MSMEs, and LLC Akido, an online marketplace that covers online shopping, delivery service, dealership, and export of know-how in the field of financial technologies to foreign markets.

100% of proceeds from gender bond dedicated to WMSMEs

Crystal plans to issue a two-year GEL 25,000,000 gender bond in the Georgian Stock Exchange. The company will use 100% of the bond proceeds to finance loans to micro, small, and medium enterprises (MSMEs) applied by, disbursed to, and signed by a woman for a business which is the main source of repayment (WMSMEs). The look-back period is 12 months.

Crystal's overall sustainability strategy

Crystal's sustainability strategy is fully aligned with the purpose of the gender bond

Crystal's mission is to provide an economic development platform for farmers and micro and small entrepreneurs with the purpose of fighting poverty in Georgia by promoting entrepreneurship in a financially, socially, and environmentally sustainable approach. The company's focus is on traditionally underserved groups including women, youth and the rural population. Crystal's commitment to ending poverty and protecting the natural environment is integrated into their business model and corporate strategy through the pursuit of a triple bottom line (TBL): People, Planet, and Profit. This strategy is operationalised by five overarching strategic goals:

1. Growth: Extend financial inclusion services by effective customer acquisition, retention, and growth from current 100,000 active relationships to 220,000 by 2026.
2. Customer focus: Increase productivity of customers, primarily MSMEs, by acting as a platform for their development.
3. Special groups: Diversify and grow the revenue streams through innovative propositions tailored to the needs of women, youth, and other special groups.
4. Green: Become an environmentally sustainable company by increasing green portfolio to GEL 50m by 2026.

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5. Stronger institution: Become a regional customer-centric, people-oriented, and data-driven financial inclusion organisation, through investment in people and systems.

Crystal uses external social ratings to ensure credibility and transparency of its operations

Crystal has adopted external principles and standards such as the UN Global Compact, UN Sustainable Development Goals, IFC Performance standards and the UK Corporate Governance Code. In addition, the company has signed the Smart Campaign Principles on Social Protection and is one of the first five Georgian signatories of the UN Women's Empowerment Principles (WEP). In this context, Crystal developed its Women's Empowerment Action Plan 2018-2019, and integrated it into HR-related policies to ensure gender equality including gender wage-gap analyses and implementing a sexual harassment reporting mechanism.

Crystal also uses a social rating to assure stakeholders of their social purpose-related business model. The company's A rating (2nd best on a six-letter scale) followed several upgrades since 2012 and reflects Crystal's well-formalised social strategy and annual approved social targets.

Crystal's sustainability strategy scores three green humans

Our assessment: Crystal's sustainability strategy has scored three green humans, reflecting the company's ambitious quantitative and qualitative social and environmental targets. The strategy further addresses a key impact responsibility for the financial industry in Georgia, namely eradicating poverty through access to finance. Scope's strong impact assessment for Crystal is also driven by the company's transparency in social impact reporting.

Issuance

Social Bond Principles: assessment of issuance

I. Use of proceeds

Social project category	Crystal's Framework	Human score
Access to essential services	Financing and/or refinancing of loans to WMSMEs to enhance social well-being	
Employment generation through SME finance and microfinance	Financing and/or refinancing of loans to WMSMEs including climate-change loans to purchase small energy efficient and renewable energy equipment, as well as expanding business operations and improving capacity via acquiring fixed assets or investing in working capital.	
Socioeconomic advancement and empowerment	Financing and/or refinancing WMSMEs, which are defined as Crystal's clients with loans applied by, disbursed to, and signed by a woman for a business which is the main source of repayment of the loan.	

Crystal ties 100% of projects to Georgia's women with focus on rural regions and green projects

The access to essential services category scored three green humans because the projects in this category contribute to the industry's key impact objectives. Currently, 58.5% of Crystal's gross loan portfolio is allocated to rural areas, where people have limited access to essential services, especially banking financial services. Financial instruments with a social perspective play an important role in increasing household incomes across the region. Crystal's capacity to deliver its mission by enhancing financial inclusion, economic development, and social well-being is of high relevance for rural Georgia. By providing micro-credit exclusively to WMSMEs (average GEL 3,000), Crystal contributes to increase access to essential services such as health, education and vocational training, healthcare, financing, and financial services, and improve living conditions. In addition, the social programmes Crystal provides to support locals, especially in rural areas which

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account for 40% of Georgia's total population,[1] have an economic and social impact. The three initiatives: Yes Georgia, Buzz Georgia, and Crystal Consulting, contribute to enhance the access to education and vocational training, healthcare, and knowledge about financing products, as well as to improve business skills by providing community training and mentorship services to borrowers.

Crystal's activities are key to strengthening the Georgian labour market, characterised by high unemployment and unequal access to formal work

The employment generation category scores three green humans. The project of finance or refinance loans to WMSMEs have an economic and social impact given that the proceeds of the loans are used to expand business operations as well as to acquire fixed assets and/or invest in working capital, thus improving economic growth and job creation. Crystal's client profile consists of farmers, MSMEs and WMSMEs which play a key role in the Georgian economy but have slow growth given the lack of access to finance. Projects under the Framework shall further contribute to Crystal's green portfolio by focusing on climate-related loans for energy efficiency. The combination of social projects with environmental objectives fills an important financing gap since only 16% of global MFIs have dedicated-energy loan products. It is Scope's view that lending to support WMSMEs in a frontier market like Georgia is among the key impact responsibilities for the financial services industry. Also, the strong link between Crystal's social framework and general corporate strategy to reach an additional 100,000 borrowers by 2026 leads to the highest human score assessment of three humans.

Crystal's WMSME initiative ensures broad-based access to finance and focus on target group

The socioeconomic advancement and empowerment category also scores three green humans led by Crystal's intention to finance loans dedicated specifically to women- owned MSMEs. Crystal aims to fight poverty in Georgia by promoting entrepreneurship. Hence, the target population of the bond is selected to deliver social and economic objectives. Globally, 70% of WMSMEs have inadequate or no access to financial services and while women face many challenges to open and grow a business, access to finance is the second most-cited obstacle. This project aims for Crystal to finance approximately 8,333 loans (average loan size) to WMSMEs where business is the main source of repayment. We note that Crystal's loan access conditions do not exclude borrowings to women where the company is owned or controlled by males. At the same time, Scope recognises the need: i) to provide broad-based access to finance including women without owned business; and ii) to encourage female borrowers to take more responsibility in male-dominated business.

We note that the projects detailed in the Framework are completely aligned with Crystal's mission and business model ensuring credibility and appropriate choice of impact relevant indicators.

Crystal's Framework scores three green humans overall

Our assessment: Crystal's aggregate score of three green humans indicates full alignment with the selected sector criteria. The Framework's use of proceeds provision fully complies with the SBP. In addition, the projects are strongly aligned with Crystal's sustainability strategy and business model, which serves an important social purpose in our view.

II. Process for project evaluation and selection

Selection of projects focuses on WMSMEs and established credit loan processes

Selection of the projects will be guided by the eligibility criteria, focused on WMSMEs, complemented by different principles and practices.

The loan underwriting process is guided by an internal regulatory rule on credit activities which considers commercial, as well as environmental and social factors in the assessment. Crystal will review revenue streams and in case these are generated from commercial activities, on-site visits will be conducted. Additionally, Crystal will do an

[1] https://data.worldbank.org/indicator/SP.RUR.TOTL.ZS?locations=GE

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environmental and social risk assessment and will use cash flow analysis to estimate the repayment capacity of the borrowers.

Given that the company finances projects aimed at economic development and/or improvement of living conditions, the following purposes are considered in Crystal's Framework:

- Working capital
- Fixed assets
- Real estate
- Improving living conditions
- Consumer purposes
- Refinancing
- Investments
- Other activities that are not against local law/regulations and Crystal's credit policies.

Crystal provides a list of excluded activities

Crystal has detailed the exclusion criteria for its eligible loans under the social bond proceeds. These are activities that would contradict alignment with the social and environmental goals of the company. Hence, the following sectors and activities are excluded from the bond proceeds:

- Forced or child labour
- Production or trade of illegal products under host country laws or international conventions, such as pharmaceuticals, pesticides and herbicides, ozone-depleting substances, hazardous chemicals, etc.
- Weapons
- Alcohol
- Tobacco
- Gambling
- Radioactive materials, including nuclear reactors and components
- Production or trade of unbonded asbestos fibres
- Logging operations and equipment for use in endangered forests
- Marine and coastal fishing practices at large scale

In addition, there are three types of securities applicable for loans: mortgage, pledge and guarantee. They shall be approved by the appropriate credit committee at one of the five committee levels, which varies according to the loan size. The first level is a credit officer with a GEL 3,000 limit and the fifth level is a loan size of GEL 100,000 limit.

Crystal's process for project evaluation and selection scores three green humans

Our assessment: Crystal's process for project evaluation is fully aligned with the SBP. In addition, this section has scored three green humans as Crystal has a precise project selection process and identifies material ESG objectives associated with the project. The company commits to monitor the borrowers in case of any controversy and to perform necessary adjustments throughout the life of the social bond.

III. Management of proceeds

Proceeds are managed by business team and ALTA software

Crystal follows a specific process to ensure the bond proceeds are being tracked and monitored. The detailed features of the target customers are shared with a dedicated

Appendix II lists the relevant indicators for measuring Crystal's contribution to each SDG. The contribution to the SDGs can be quantified in post-issuance impact reporting.

Impact of proceeds

SMEs and microfinance in Georgia

Small and medium-sized enterprises play an important role in the development of the economy, contributing significantly to sustainable growth through their potential in employment generation and job creation. In 2017, 98.9% of enterprises in the European Union were small and 0.9% were medium, contributing to 57% of total value added and 67% of total employment[2]. Also, according to the Asian Development Bank (ADB), SMEs accounted for 96% of all Asian business, 62% of the national labour forces, and 42% of value added or GDP in ASM countries.[3] [4]

Georgia's SMEs account for 99.6% of all active enterprises

The Georgian economy also relies on small and medium-sized enterprises. In 2020, the number of SMEs in Georgia accounted for 99.6% of all active enterprises in the country (small enterprises account for 98.13% and medium for 1.47%). Additionally, SMEs were responsible for 59.3% of total private employment and contributed to 40.8% of total domestic turnover and 58.0% of output in the business sector.[5]

The National Statistics Office of Georgia defines the small, medium, and large enterprises according to number of employees and annual turnover. Table 1 shows the limits for each indicator where enterprises are classified accordingly:[6]

Table 1: Definition of MSMEs in Georgia

Enterprise category	Average annual turnover	Average annual number of employees
Micro enterprise[7]	<GEL 1m	<10
Small enterprise	<GEL 12m	<50
Medium enterprise	GEL 12m – 60m	51-249
Large enterprise	>GEL 60m	>250

Source: National Statistics Office of Georgia

SMEs as the backbone of Georgia's economy

The main sectors and contributors to Georgia's GDP in 2020 were manufacturing (23%), construction (20%) and trade (18%) where Georgian SMEs employed more than 60% of the people engaged in these sectors, with construction accounting for more than 70%.[8]

In 2020, the World Bank 'Doing Business' survey, which ranks economies from 1-190 on their ease of doing business through measuring several indicators, placed Georgia number seven globally with a score of 83.5, meaning that Georgia is 16 percentage points away from the best regulatory performance across all economies and across time.[9] In recent years, Georgia has improved the business environment for all enterprises, including SMEs. It has simplified administrative regulations, reduced the tax burden, and facilitated free trade. In addition, the country has implemented regulations and institutions that support

[2] https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20200514-1
[3] https://www.adb.org/sites/default/files/publication/474576/adbi-wp911.pdf
[4] These countries cover Central Asia, East Asia, South Asia, Southeast Asia, and the Pacific
[5] https://www.oecd-ilibrary.org/sites/00e218ce-en/index.html?itemId=/content/component/00e218ce-en#endnotea17z2
[6] ILO. (2021). *EESE Assessment of MSME trends and policies in Georgia.* Geneva: ILO.
[7] https://unece.org/sites/default/files/2021-03/Georgia_MSME_EE_RE_Report.pdf
[8] National Statistics Office of Georgia. (2021). *Business Sector in Georgia 2021.*
[9] https://archive.doingbusiness.org/en/data/exploreeconomies/georgia

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lending and borrowing, and while these are aimed at improving access to credit, access to finance remains an important constraint, particularly for SMEs.[10]

Limited access to finance remains an important constraint for SMEs in the region

According to the ADB, limited access to bank credit is a main concern in the region which endangers economic growth and employment.[11] Literature shows a negative relationship between the firms reporting access to finance as a constraint and per capita income growth rates.[12] In Georgia, credit to SMEs grew 408% in 2020 from 2010 levels and total business loans grew by more than 299%. Georgian SMEs depend mainly on the banking sector for their financing needs, and though the non-financial options play a smaller role,[13] the 163% increase in the volume of loans issued by the microfinance organisations since 2017, means it is growing at a very fast pace.[14]

Microfinance organisations in Georgia growing at a very fast pace

The structure of the financial sector in Georgia, as of 2019, is mainly represented by commercial banks with 95% of the total financial sector assets, while microfinance organisations account for 3% of the share. Loans to corporates account for around 61% of the banking sector credit portfolio of which 20% are loans to SMEs.[15] Additionally, the assets of the non-banking financial sector reached GEL 2bn, of which 70% were assets held by microfinance organisations[6] as they play a key role in rural areas and agriculture. In Georgia, 90% of the corporate microfinance loans are concentrated in four MFOs where Crystal is the leader in microfinance lending, accounting for 27.4% of the total MFO's loan portfolio.[6]

MSME's finance gap in developing countries of USD 5.2 trillion

Financial instruments for private sector banks as well as for non-bank providers targeting MSMEs are crucial due to the large finance gap. It is estimated that 131 million or 42% of formal MSMEs in developing countries have unmet financing needs and **figure 3** shows the finance gap of approximately USD 5.2 trillion.[16] This suggests that 58% of potential demand is unmet. In addition, the total volume of current MSMEs funding is disproportionately distributed as SMEs are attributed with 96% and only 4% goes to microenterprise finance.[17]

[10] https://www.oecd-ilibrary.org/sites/4a217b07-en/index.html?itemId=/content/component/4a217b07-en#tablegrp-d1e1420
[11] https://www.theasianbanker.com/updates-and-articles/bank-lending-to-small-businesses-in-asia-pacific-grew-154-in-2021
[12] International Monetary Fund. (2019). *Financial Inclusion of Small and Medium-Sized Enterprises in the Middle East and Central Asia.* Washington: IMF Library.
[13] https://www.oecd-ilibrary.org/sites/00e218ce-en/index.html?itemId=/content/component/00e218ce-en#section-d1e137688
[14] https://www.oecd-ilibrary.org/sites/00e218ce-en/index.html?itemId=/content/component/00e218ce-en#section-d1e139058
[15] https://www.bstdb.org/Overview%20of%20the%20fin_sector_GEORGIA.pdf
[16] https://www.smefinanceforum.org/data-sites/msme-finance-gap
[17] International Finance Corporation. (2017). *MSME Finance Gap.* Washington.

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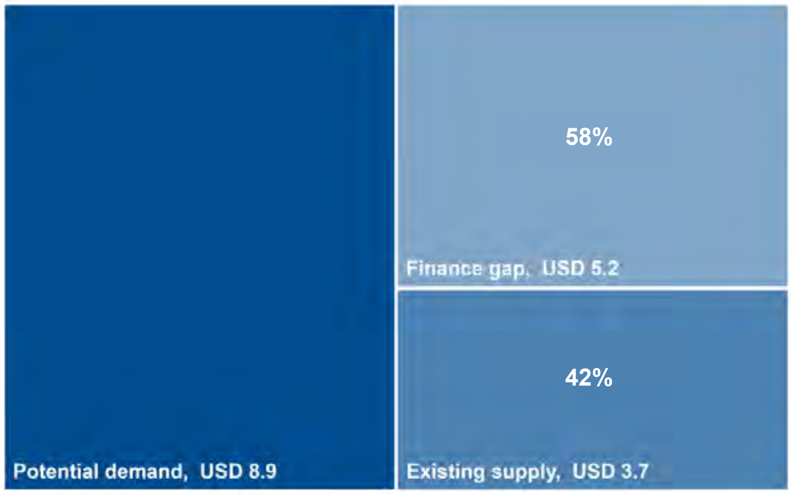
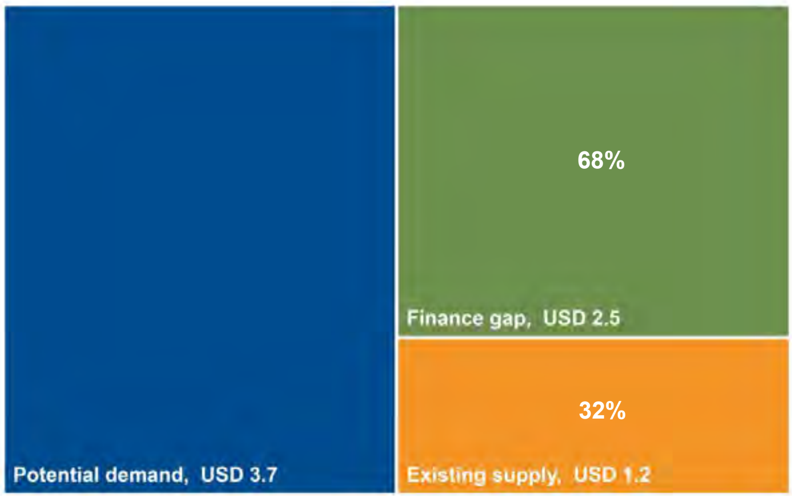
Figure 3: MSME finance gap in developing countries, USD trillions



Source: IFC, 2017

Figure 4: Georgia MSME finance gap, USD billions



Source: IFC, 2017

SME financing supports economic and employment growth in CCA economies

Crystal, as a leader in the microfinance industry in Georgia, contributes to the supply of financing for MSMEs and reduces the finance gap in the country. According to the IMF, closing the SME financial inclusion gap can support annual economic growth in Caucasus and Central Asian (CCA) countries[18] by up to 1% and support employment by potentially creating around 2.3 million jobs by 2025. Research suggests that a 1% rise in SME credit reduces unemployment by about 0.2% in CCA countries.[12]

In 2016, Georgia implemented the National SME Development Strategy 2016-2020 with the objective of increasing SME economic output by 10%, employment by 15% and

[18] CCA countries include Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan

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productivity by 7%, compared to 2013 levels.[19] Crystal plans to continue supporting SME growth by increasing the number of MSMEs with access to finance and supporting the new upcoming and updated strategy 2021-2025. Moreover, Crystal is aligned with other initiatives such as the Enterprise Georgia goal of improving access to finance while improving private sector competitiveness and GITA (Georgia's Innovations and Technology Agency) which is the main driver of Georgia's innovation system that supports start-ups and SMEs offering co-financing schemes for innovative projects.[6]

Gender impact

Women are universally considered low-risk microfinance clients compared to men

In terms of social objectives, financial inclusion remains the main goal of European MFI operations, and women and the rural population are the two main target groups.[20] Multiple studies demonstrate that targeting women borrowers increases repayment rates of microfinance organisations. Women show usually superior credit risk than men. In addition, findings reveal that focusing on women borrowers is also associated with better MFI sustainability and profitability. As a result, female borrowers make up around 70% of all microfinance clients globally[21] and 60.1% of Crystal's customers.[22] As such, Crystal's strategy to focus on women contributes to both its social and economic objectives.

Women-owned business in developing countries represent 28% of MSMEs and account for 32% of the MSME finance gap of USD 1.7trn. In Georgia, women-owned enterprises are also a minority, where only 22% of Georgia's active enterprises have a female participation in ownership[23] and where they account for 40% of the MSME finance gap of USD 1bn.[15]

According to the World Economic Forum Gender Gap Report 2020, Georgia was ranked 74 out of 153 countries[24] (improved by 21 places since 2017). Women's participation in Georgia's labour force is significantly lower compared to men even though women represent 55% of the working-age population with higher education. Although women and men are engaged in Georgian entrepreneurship, women are more likely to own microenterprises than large businesses. However, research shows that women-led and owned business are more often excluded from venture capital and business opportunities compared to male-owned firms despite similar or better financial performance.[25]

Women face multiple barriers to financial market access

Commercial banks in Georgia often impose collateral requirements that can exceed 2.5-3 times the value of the loan, with strong preference for real estate.[6] Hence, owning land is crucial for financial access. Yet, one of the barriers that women face to access financial products is the low level of land and asset ownership where women own approximately 1/3 less hectares than men. This implies higher rates of poverty among women, less household expenses on education and health, and weaker women empowerment.[26] In addition, the wage gap remains high with average monthly salaries of women at approximately 67.6% of men's average monthly salary.[27]

Crystal's projects contribute to women's empowerment and increase repayment rates for microlenders

The social impact of Crystal is twofold: The company grants access to finance for women-owned business which contributes to employment generation, gender equality and reduction of poverty by targeting women. Second, Crystal's business model of providing consultancy and training services to WMSMEs raises management and business skills for borrowers and contributes to women empowerment. We also note that while Crystal asks

[19] http://www.economy.ge/uploads/files/2017/ek__politika/eng_sme_development_strategy.pdf
[20] https://mfc.org.pl/wp-content/uploads/2021/02/executive-sum_overview-survey-2020_en.pdf
[21] Zainuddin, M., & Yasin, I. M. (2020). Are Women Better Borrowers in Microfinance? A Global Analysis. *The Empirical Economics Letters*.
[22] https://ir.crystal.ge/wp-content/uploads/2022/07/Crystal_report_ENG_2022_BIG.pdf
[23] https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/country/Georgia-2019.pdf
[24] https://www3.weforum.org/docs/WEF_GGGR_2020.pdf
[25] https://epfound.ge/static/file/202111193705-sme-gendered-assessment_eng.pdf
[26] https://www.geostat.ge/media/21027/EDGE-Report-ENG-Final.pdf
[27] National Statistics Office of Georgia. (2021). *Women and Men in Georgia.* Tbilisi.

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for collateral when providing a loan, it provides additional options than real estate by adding a movable property or a physical person guarantee.

Crystal's proceeds to finance energy efficient and renewable energy equipment

Furthermore, one of the MFI trends in Europe is microfinance organisations engaged in green technologies, with 16% of MFIs having dedicated energy-efficiency loan products and other institutions planning to introduce such products in their portfolio. Crystal's proceeds will be used to finance loans to WMSMEs, including climate-change loans to purchase small energy efficient and renewable energy equipment. This strategy has supported Crystal's green financing initiative since 2017 and shall contribute to the company's goal of reaching a green portfolio of GEL 30m by 2025, compared to GEL 12m in 2021.

Crystal's impact of proceeds scores three green humans

Our assessment: We note that the projects are highly relevant to a social objective within the microfinance industry. The scope of the impact is significant and goes beyond market practices. Best practices are adopted by Crystal in executing this activity.

Risks

Dedicated risk-monitoring process

While Crystal's business model and bond proceeds will finance green projects and projects led by women, the microfinance industry entails environmental and social risks. Some of the most material risks are the type of projects that Crystal could fund from controversial industries. In addition, the funding nature of microfinance organisations could also impose liquidity risks.

However, Crystal is aware of these risks, and it has developed a risk management system, based on international standards, to identify and assess risks and threats in a timely manner. The company has also developed recommendations for risk management, monitoring, reporting and evaluation of risk process effectiveness. In addition, Crystal recently applied for a commercial banking license which could help in diversifying funding sources and providing better opportunities to deliver on its objectives.

We note that Crystal discloses associated risks related to the projects in the Framework and we recognise the company's transparency on environmental and social impacts of its business model. Crystal's Best Annual Report and Transparency Competition award by World Bank lends credibility to the company's reporting quality.

Crystal's ESG risks management scores three green humans

Our assessment: Crystal has a risk management strategy in place that addresses direct and indirect risks associated with every project category of this issuance. Crystal conducts a full risk assessment before engaging in a project and ensures that risks are minimised to the best of knowledge.

Associated project risks	Crystal's risk mitigation measures
Credit risk	The most frequent risk associated with MFIs is the risk to earnings or capital due to borrowers' late or non-payment of loan obligations. The inability to collect interest earnings or loss of principal resulting from loan defaults could impose a credit as well as liquidity risk.[28] In order to avoid over-indebtedness of its clients, every loan is processed using the credit regulatory rule of Crystal, assessing clients' creditworthiness. Crystal uses cash flow analysis to estimate the repayment capacity of its clients and does it repeatedly through each loan cycle. In addition, clients are checked in an online credit bureau to understand the level of borrowing and avoid financing a person with a poor credit history.
Borrowers' limited expertise on financial services	As the client profile of MFIs are the underemployed or low-income individuals, farmers, MSMEs or WMSMEs without access to financial services, they could lack the basic understanding of financial services which could pose a credit risk if they do not manage the proceeds correctly. Crystal runs multiple social programmes to support locals, especially in rural areas, to deliver knowledge for higher economic and social impact. The three key initiatives are Yes Georgia, Buzz Georgia and Crystal Consulting. With these initiatives, Crystal offers a package of free trainings online aimed at developing personal competencies,

[28] https://www.findevgateway.org/sites/default/files/publications/files/a_risk_management_framework_for_microfinance_institutions.pdf

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	leadership, and entrepreneurial-financial skills. In addition, Crystal Consulting supports MSMEs entrepreneurs to achieve their short and long-term goals. This service offers consulting, mentoring, and coaching and is mainly to improve crisis management and adaptation to new circumstances as well as to identify existing business challenges.
Funding	Microfinance organisations in Georgia are prohibited from taking deposits from either individuals or legal entities,[29] therefore funding relies on shareholders, often using foreign currency from international sources, which exposes MFOs to exchange rate risks. This difference between foreign funding and local currency lending could increase MFO lending costs by 3% to 4% to exchange foreign currencies to GEL in commercial banks.[6] The NBG (with the support of the IMF) has considered allowing qualified MFOs to apply to be licensed as micro-banks, in which case they could also be deposit-taking entities. The reason is to reduce funding costs for micro-banks, promote more lending to MSMEs and improve the financial system.[6] Although the regulatory framework for MFIs limits its competitive capabilities, Crystal has received funding of over USD 50 million from international and local partners in 2021 (68% foreign partner and 32% from local banks) where 30% of these resources were used towards increasing the portfolio and the remaining to funding existing clients.[30] Crystal cooperates with international financial institutions such as the European Investment Bank, Incofin, DWM, FMO, Proparco, Finance in Motion (EFSE), BlueOrchard, Triodos, Symbiotics, responsAbility, Bank Im Bistum, TripleJump, and five large banks from the local partner's side. In addition, Crystal will be one of the first MFOs to apply for a micro-bank license and would most likely obtain a commercial banking license by mid of 2023. This would provide better opportunities to fulfil its mission, giving the ability to diversify funding sources and increase its basket of products such as current and savings accounts to grow within the small business segment.[30]
Environmental and social risks	The environmental and social risks associated with microfinance institutions are low due to the small size of the operations, but not inexistent. For instance, microfinance institutions can be involved in handling dangerous substances such as pesticides that can pose environmental risks and endanger health safety. If not managed appropriately, these could potentially be a risk of credit liability as individuals can be affected along with their ability to repay a loan. In addition, given the context of the development role MFIs play in the community, this could also lead to a reputational risk.[31] Crystal's ESG framework is aligned with the ADB Safeguards Policy Statement 2009 which consists of three operational policies on the environment, indigenous people, and involuntary resettlement.[32] In addition, Crystal's environmental and social management system (ESM) covers the screening and monitoring for all financed loans from the bond proceeds. Crystal also has in place an exclusion criteria list where investment activities using the proceeds will be prohibited, Crystal will do annual compliance monitoring and reporting to review that environmental and social safeguards requirements are being met, especially for climate-related loans. Additionally, Crystal follows NBG regulations related to ethical collection methods, so they are committed to fair treatment and care towards vulnerable customers.

[29] https://www.eib.org/attachments/efs/economic_report_neighbourhood_sme_financing_georgia_en.pdf
[30] Crystal Integrated Report 2021 https://ir.crystal.ge/wp-content/uploads/2022/07/Crystal_report_ENG_2022_BIG.pdf
[31] https://firstforsustainability.org/risk-management/understanding-environmental-and-social-risk/environmental-and-social-risk-for-financial-institutions/risk-in-microfinance/
[32] https://www.adb.org/sites/default/files/institutional-document/32056/safeguard-policy-statement-june2009.pdf

Assessment by the rating agency Scope:

SCOPE

Second-Party Opinion
Crystal Social Bond Framework

Appendix I: Documents provided by Crystal

Document category	Document description
Market research on sector/regional standards	Business sector in Georgia 2021 – National Statistics Office of Georgia
	Women and men in Georgia 2021 - National Statistics Office of Georgia
	Gendered Assessment of SME Development Strategy of Georgia 2016-2020 – Nordic Consulting Group
	Social-economic Development Strategy of Georgia – Government of Georgia
	Pilot Survey on Measuring Asset Ownership and Entrepreneurship from a Gender Perspective – GEOSTAT and Asian Development Bank
	Georgia Country Gender Assessment – Asian Development Bank
General information provided by Crystal	Crystal's Social Rating by MFR
	Crystal Integrated Report 2021
Social bond-specific documentation provided by Crystal	Green Bond Framework
	Information on use of proceeds

Assessment by the rating agency Scope:

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Appendix II: SDG alignment

SBP category	SDG alignment	Indicators to be evaluated
Access to essential services	1 NO POVERTY 4 QUALITY EDUCATION	Number of WMSME borrowers accessing financial support and business development services Number of WMSME borrowers in rural areas
Employment generation	7 AFFORDABLE AND CLEAN ENERGY 8 DECENT WORK AND ECONOMIC GROWTH 10 REDUCED INEQUALITIES	Number of WMSME borrowers of climate-related loans
Socioeconomic advancement and empowerment	1 NO POVERTY 5 GENDER EQUALITY 10 REDUCED INEQUALITIES	Number of WMSME borrowers Number of WMSME borrowers in rural areas

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Annex 3 - A list of Abbreviations:

ACCA Association of Chartered Certified Accountants
ADB Asian Development Bank
AFD Agence Française de Développement
ALCO Assets and Liabilities Committee
AML Anti-money laundering
BARTA Best Annual Report and Transparency Competition
BCP Business Continuity Plan
CA Current Account
CAR Capital Adequacy Ratio
CHCA Charity Humanitarian Centre Abkhazeti
CIS Commonwealth of Independent States
CO2 Carbon Dioxide
DFC US Development Finance Corporation (former OPIC)
EBRD European Bank for Reconstruction and Development
E&S Environmental and social
EE Energy Efficient
ESG Environmental Social and Governance
EU European Union
FDI Foreign Direct Investment
GDP Gross Domestic Product
GEL Georgian Lari
ICAAP Internal Capital Adequacy Assessment Process
IFRS International Financial Reporting Standards
JSC Joint Stock Company
KPI Key Performance Indicator
LLC Limited Liability Company
MFI Microfinance Institution
MPR Monetary Policy Rate
MSME Micro, Small and Medium Enterprises
NRA New Risk Assessment
NPL Non-Performing Loans
PAR Portfolio at Risk
PP Percentage Point
RE Renewable Energy
RED Risk Events Database
REER Real Effective Exchange Rate

ROA Return on Assets
ROE Return on Equity
SB Supervisory Board
SDG Sustainable Development Goal
SID Senior Independent Director
SIDA Swedish International Development Agency
SMS Short Messaging Service
UN United Nations
USD United States Dollar
USAID United States Agency for International Development
YoY Year-over-year