

MOGO LLC

Financial Statements

Together with Independent Auditor's Report

Year ended 31 December 2022

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of Mogo LLC

Qualified Opinion

We have audited the financial statements of Mogo LLC (the "Company"), which comprise the statement of financial position as at 31 December 2022, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion

As described in Note 24 (b) to the financial statements, as at 31 December 2021 the Company considers it is probable that the taxation authority will take into consideration the tax treatment of the Company's related party transactions. However, this judgement is not appropriately supported by the respective tax litigation practice and significant economic benefit outflow is expected from the Company. Reflection of an effect of the uncertain tax treatment is required by International Financial Reporting Standard IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments: if the entity concludes that it is not probable that a particular tax treatment is accepted by the taxation authority, the entity has to use most likely amount or the expected value of the tax treatment. The decision made by the management of the Company in previous year caused above mentioned circumstance. Due to this fact, our opinion on the current period's financial statements is also modified. Had such tax consequences been recognized, the effect would have been to increase a tax liability and decrease retained earnings as at 31 December 2022 and 2021 with the amount of GEL2,700 thousand and would have been to increase tax expenses and decrease net profit and total comprehensive income by GEL2,700 thousand for the year ended 31 December 2021.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants 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 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 qualified opinion.

Other Matter

The financial statements of Mogo LLC for the year ended December 31, 2021, were audited by another auditor who expressed modified opinion - Qualified opinion on those financial statements on July 25, 2022. We conducted audit of prior period reclassifications presented in Note 5. In our opinion these reclassifications are made properly. We were not appointed to conduct procedures, review or audit of the financial statements for the year ended 31 December 2021. Except for above mentioned reclassifications, we do not express an opinion or any other assurance on financial statements for the year ended 31 December 2021. Our opinion is not modified in respect of this matter.

Other information

The management is responsible for the preparation of other information, which is given in the management report. Other information was not provided until the date of auditor's opinion.

Our opinion on financial statements does not cover above mentioned other information. Probably, management report will be available to us after the date of auditor's opinion.

In preparing the financial statements, we are responsible to review the above-mentioned other information and assess whether it is materially inconsistent with the financial statements or with evidence obtained during the audit or gives the impression that it is materially misstated. If based on our work performed, we conclude that other information is materially misstated, we are obliged to disclose this information.

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

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

In preparing the financial statements, management is responsible for assessing the 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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



Davit Darsavelidze (SARAS-A-735032)

For and on behalf of BDO Audit LLC

Tbilisi, Georgia

12 June 2023

MOGO LLC

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

(In Georgian Lari)

	Note	31.12.2022	31.12.2021*	01.01.2021*
Assets				
Non-current assets				
Intangible assets		-	69	2,116
Property and equipment	11	38,221	84,249	162,352
Right-of-use assets	11	1,209,966	1,589,004	462,931
Finance lease receivables	12	18,278,354	21,178,060	17,427,647
Loans and advances to customers	13	9,978,131	13,033,263	12,076,145
		29,504,672	35,884,645	30,131,191
Current assets				
Finance lease receivables	12	10,827,447	9,099,708	10,240,283
Loans and advances to customers	13	7,736,000	7,039,708	8,929,559
Tax assets		3,296,309	3,298,605	2,095,998
Other receivables	15	879,273	1,573,047	812,434
Cash at bank	16	2,359,556	1,815,364	771,672
		25,098,585	22,826,432	22,849,946
Total assets		54,603,257	58,711,077	52,981,137
Equity and liabilities				
Equity				
Charter capital	17	200,000	200,000	200,000
Other reserves	17	(233,845)	(2,833,431)	(1,794,773)
Retained earnings		47,334,251	36,175,611	27,343,748
Total equity		47,300,406	33,542,180	25,748,975
Liabilities				
Non-current liabilities				
Loans and borrowings	18	2,863,326	16,719,632	10,634,896
Provision for financial guarantee	20	51,008	1,320,684	1,056,328
Lease liabilities	22	706,211	1,118,461	115,676
		3,620,545	19,158,777	11,806,900
Current liabilities				
Loans and borrowings	18	2,480,728	4,062,428	13,450,916
Lease liabilities	22	422,447	491,663	411,959
Trade payables		153,287	456,126	133,250
Other liabilities	19	625,844	999,903	1,429,137
		3,682,306	6,010,120	15,425,262
Total liabilities		7,302,851	25,168,897	27,232,162
Total equity and liabilities		54,603,257	58,711,077	52,981,137

(*) - Restated, for additional information please refer to Note 5

Notes on pages 10 - 48 are the integral part of these financial statements.

MOGO LLC

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

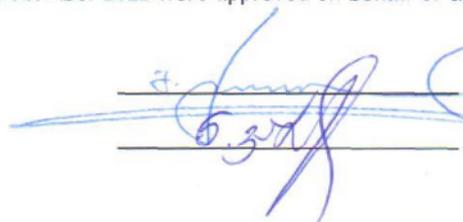
(In Georgian Lari)

	Note	2022	2021
Interest income	6	20,451,915	19,485,005
Interest expense	6	(1,494,865)	(2,445,359)
Net interest income		18,957,050	17,039,646
Net expense from debt collection activities	7	(389,516)	(260,706)
Income from penalties received		3,104,543	2,159,720
Penalties paid		-	(82,645)
Credit loss expense	14	(4,349,733)	(2,862,880)
Loss from sale of financial assets measured at amortized cost		(2,459)	(1,151,421)
Expenses related to peer-to-peer platforms services		(171,180)	(281,721)
Selling expense	8	(335,131)	(439,045)
General and administrative expense	9	(8,437,488)	(8,597,929)
Other operating income	10	1,319,247	1,163,914
Other operating expense	10	(198,013)	(371,566)
Net operating expenses		(9,459,730)	(10,724,279)
Net foreign exchange gain		3,417,152	2,516,496
Profit before tax		12,914,472	8,831,863
Income tax expense		-	-
Net profit and total comprehensive income for the year		12,914,472	8,831,863

The financial statements for the year ended 31 December 2022 were approved on behalf of the management on 12 June 2023 by:

Director

Chief Accountant



 _____ Shota Kekelia



 _____ Nato Vachnadze

Notes on pages 10 - 48 are the integral part of these financial statements.

MOGO LLC

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(In Georgian Lari)

	Note	2022	2021
Cash flows from operating activities:			
Profit for the year		12,914,472	8,831,863
Adjustment for:			
Depreciation and amortisation	11	814,529	808,898
Interest expense	6	1,494,865	2,445,359
Loss on disposal of property and equipment and ROUA		9,095	-
Loss from sale of financial assets measured at amortized cost		-	1,151,421
Income from guarantees	10	(234,716)	(659,651)
Credit loss expense	14	4,349,733	2,862,880
Net foreign exchange gain		(3,417,152)	(2,516,496)
Operating cash flows before working capital changes		15,930,826	12,924,274
Changes in:			
Finance lease receivables and loans and advances to customers		(818,926)	(8,043,938)
Other receivables and tax assets		457,010	(1,598,444)
Trade payables and other liabilities		(654,704)	(106,359)
Cash generated from operations		14,914,206	3,175,533
Interest paid on lease liability	22	(99,671)	(65,982)
Interest paid on loans and borrowings	18	(1,464,079)	(2,315,245)
Net cash flows from operating activities		13,350,456	794,306
Cash flows from investing activities:			
Purchase of property and equipment and intangible assets		(8,379)	(78,001)
Cash receipts from sale of financial assets measured at amortized cost		-	1,500,264
Net cash (used in)/from investing activities		(8,379)	1,422,263
Cash flows from financing activities:			
Proceeds from loans and borrowings	18	13,064,104	22,197,929
Repayment of loans and borrowings	18	(24,620,776)	(22,315,772)
Repayment of lease liability	22	(695,862)	(722,562)
Net cash used in financing activities		(12,252,534)	(840,405)
Net increase in cash and cash equivalents		1,089,543	1,376,164
Cash and cash equivalents at 1 January	16	1,815,364	771,672
Effect of movements in exchange rates on cash and cash equivalents		(545,351)	(332,472)
Cash and cash equivalents at 31 December	16	2,359,556	1,815,364

Notes on pages 10 - 48 are the integral part of these financial statements.

MOGO LLC

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

(In Georgian Lari)

	Charter capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2021	200,000	(1,794,773)	27,343,748	25,748,975
Total comprehensive income for the year	-	-	8,831,863	8,831,863
Increase in fair value of the guarantees (Note 20)	-	(1,038,658)	-	(1,038,658)
Balance at 31 December 2021	200,000	(2,833,431)	36,175,611	33,542,180
Total comprehensive income for the year	-	-	12,914,472	12,914,472
Decrease in fair value of the guarantees (Note 20)	-	2,599,586	(1,755,832)	843,754
Balance at 31 December 2022	200,000	(233,845)	47,334,251	47,300,406

Notes on pages 10 - 48 are the integral part of these financial statements.

1. Reporting entity

Georgian business environment

The Company's operations are located in Georgia. Consequently, the Company is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia.

The financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

Organisation and operations

Mogo LLC (the "Company") is a limited liability company as defined in the Law on Entrepreneurs of Georgia and was incorporated on 14 March 2014. The Company's identification number is 404468688.

The Company's registered office is Otar Chkheidze str.10, 0160 Tbilisi, Georgia.

The Company's principal business activity is providing automobile lease and sale and leaseback services for the amounts up to GEL 30,000 with duration of up to seven years in Georgia. In both instances, the vehicle is used as a collateral and appropriately, all loans issued by the Company are secured. Funding is being offered at the customer service centres.

As at 31 December the shareholding structure of the Company was as follows:

Owners	Ownership structure, %	
	2022	2021
JSC AS Eleveling Luna, Latvia (the Parent)*	100%	100%
	100%	100%

In 2021 the Ultimate Parent Company, Mogo Finance S.A., was renamed to Eleveling Group S.A. and as at 31 December 2021 and 2022 the Company is ultimately controlled by Eleveling Group S.A. (the Ultimate Parent Company). As at 31 December 2022 and 31 December 2021 none of the ultimate beneficial owners individually controls the Company.

(*) - According to decision made on 13 September 2022, the name of parent company has been changed from AS Mogo Baltics and Caucasus to AS Eleveling Luna (Registration No. 40203145805).

Related party transactions are further disclosed in Note 25.

2. Basis of accounting

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Company's functional currency and the currency in which these financial statements are presented. All financial information presented in GEL is rounded to the nearest GEL, except when otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(In Georgian Lari)

4. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 14 - Credit loss expense;
- Note 20 - Provision for financial guarantee.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the notes:

- determination of fair value of financial guarantee issued - Note 20 and 28(j);
- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding - Notes 28(i) and 28(o).
- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information - Note 12, 13, 14 and 28(l).

Measurement of fair values

A number of the Company's accounting policies and disclosures require the determination of fair values for financial assets and liabilities. The fair value have been determined for measurement and disclosure purposes.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Further information about the assumptions made in measuring fair values is included in Note 21(a) - Accounting classifications and fair values.

5. Prior period reclassification

As at 31 December 2022 the Company had identified that the presentation of assets held for sale was previously misstated in its financial statements. The Company reported "receivables from the finance lease" and "loans and advances to customers" lending activities which were defaulted and where the pledge was repossessed as asset held for sale under IFRS 5. The Company has identified that these receivables are rather subject to IFRS 9. As a result, reclassification was made from the statement of financial position caption "Assets held for sale" to "Finance lease receivables" and "Loans and advances to customers". During 2022 the Company has identified the adjustment amounts as at 31 December 2021 and 1 January 2021 and has made further correction of comparative figures in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

*(In Georgian Lari)***5. Prior period reclassification (Continued)**

The effect of prior period adjustments on the statement of financial position as of 31 December 2021 can be presented as follows:

	<u>As previously presented</u>	<u>Reclassification</u>	<u>Restated</u>
Finance lease receivables, short-term	8,652,065	(447,643)	9,099,708
Loans and advances to customers, short-term	6,823,875	(215,833)	7,039,708
Other assets held for sale	663,476	663,476	-

The effect of prior period adjustments on the statement of financial position as of 1 January 2021 can be presented as follows:

	<u>As previously presented</u>	<u>Adjustments</u>	<u>Restated</u>
Finance lease receivables, short term	10,037,769	(202,514)	10,240,283
Loans and advances to customers, short term	8,799,814	(129,745)	8,929,559
Other assets held for sale	332,259	332,259	-

6. Net interest income

	<u>2022</u>	<u>2021</u>
Interest income		
Interest income from finance lease receivables	12,116,158	15,126,338
Interest income from loans and advances to customers according to effective interest rate method	8,335,757	4,358,667
	<u>20,451,915</u>	<u>19,485,005</u>
Interest expense		
Interest expenses for loans from P2P platform investors	(1,187,522)	(1,889,736)
Interest expenses for loans from banks	(7,126)	(218,688)
Interest expenses for loans from related parties	(200,546)	(270,953)
Interest expenses for lease liabilities (Note 22)	(99,671)	(65,982)
	<u>(1,494,865)</u>	<u>(2,445,359)</u>
Net interest income	<u>18,957,050</u>	<u>17,039,646</u>

7. Net expense from debt collection activities

	<u>2022</u>	<u>2021</u>
Income from debt collection activities	99,833	116,181
Expenses from debt collection activities	(489,349)	(376,887)
	<u>(389,516)</u>	<u>(260,706)</u>

8. Selling expense

	<u>2022</u>	<u>2021</u>
Marketing expenses	(327,126)	(432,708)
Other selling expenses	(8,005)	(6,337)
	<u>(335,131)</u>	<u>(439,045)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

*(In Georgian Lari)***9. General and administrative expense**

	<u>2022</u>	<u>2021</u>
Management services	(3,468,395)	(3,572,858)
Employees' salaries	(3,077,302)	(2,761,383)
Depreciation and amortization	(814,529)	(808,898)
Office and branches' maintenance expenses	(290,219)	(345,730)
Professional services	(170,234)	(254,776)
IT services	(149,503)	(153,787)
GPS equipment cost	(144,949)	(300,166)
Credit database expenses	(97,443)	(123,023)
Communication expenses	(94,616)	(110,361)
Bank commissions	(44,582)	(57,041)
Other administrative expenses	(85,716)	(109,906)
	<u>(8,437,488)</u>	<u>(8,597,929)</u>

10. Other operating income, net

	<u>2022</u>	<u>2021</u>
Other operating income		
Commission income	802,673	245,369
Income from guarantee provided (Note 20)	234,716	659,651
Interest income on bank deposits	170,559	58,695
Other	111,299	200,199
	<u>1,319,247</u>	<u>1,163,914</u>
Other operating expense		
Other	(198,013)	(371,566)
	<u>(198,013)</u>	<u>(371,566)</u>
Other operating income, net	<u>1,121,234</u>	<u>792,348</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(In Georgian Lari)

11. Property and equipment and right-of-use assets

<i>GEL</i>	Equipment	Leasehold improvements	Right-of-use assets	Total
Cost				
At 1 January 2021	1,121,831	56,258	1,661,574	2,839,663
Additions	78,001	-	1,862,813	1,940,814
Disposals	(112,974)	-	(1,528,886)	(1,641,860)
At 31 December 2021	1,086,858	56,258	1,995,501	3,138,617
At 1 January 2022	1,086,858	56,258	1,995,501	3,138,617
Additions	8,379	-	390,110	398,489
Disposals	(9,619)	-	(157,619)	(167,238)
At 31 December 2022	1,085,618	56,258	2,227,992	3,369,868
Accumulated depreciation				
At 1 January 2021	(962,086)	(53,651)	(1,198,643)	(2,214,380)
Depreciation for the year	(107,851)	(1,955)	(695,253)	(805,059)
Depreciation on disposals	66,676	-	1,487,399	1,554,075
At 31 December 2021	(1,003,261)	(55,606)	(406,497)	(1,465,364)
At 1 January 2022	(1,003,261)	(55,606)	(406,497)	(1,465,364)
Depreciation for the year	(53,275)	(652)	(760,533)	(814,460)
Depreciation on disposals	9,139	-	149,004	158,143
At 31 December 2022	(1,047,397)	(56,258)	(1,018,026)	(2,121,681)
Carrying amounts				
At 31 December 2021	83,597	652	1,589,004	1,673,253
At 31 December 2022	38,221	-	1,209,966	1,248,187

12. Finance lease receivables

	31.12.2022	31.12.2021	01.01.2021
Finance lease receivables, gross	33,586,986	32,960,705*	40,332,047
Expected credit loss	(4,481,185)	(2,682,937)	(12,664,117)
Finance lease receivable, net	29,105,801	30,277,768	27,667,930

(*) - During 2021, the Company sold the portfolio of impaired finance lease receivables and loans to customers with carrying amount of GEL 1,405,659 and GEL 1,573,978 respectively for a consideration of GEL 1,828,216. The loss from the transaction of GEL 1,151,421 was recognised in the statement of profit or loss and other comprehensive income.

	31 December 2022		
	Minimum lease payments	Unearned finance income	Finance lease receivables, gross
Up to one year	23,257,713	9,900,700	13,357,013
Years 2 through 5 combined	32,805,254	14,581,822	18,223,432
More than 5 years	2,645,539	638,998	2,006,541
	58,708,506	25,121,520	33,586,986

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

*(In Georgian Lari)***12. Finance lease receivables (Continued)**

	31 December 2021		
	Minimum lease payments	Unearned finance income	Finance lease receivables, gross
Up to one year	21,825,534	10,667,339	11,158,195
Years 2 through 5 combined	35,525,531	16,062,989	19,462,542
More than 5 years	3,167,315	827,347	2,339,968
	60,518,380	27,557,675	32,960,705

	1 January 2021		
	Minimum lease payments	Unearned finance income	Finance lease receivables, gross
Up to one year	31,714,983	9,312,359	22,402,624
Years 2 through 5 combined	28,036,970	11,502,696	16,534,274
More than 5 years	1,857,274	462,125	1,395,149
	61,609,227	21,277,180	40,332,047

	31.12.2022		31.12.2021		01.01.2021	
	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease receivables	20,258,528	12,994,787	21,843,065	10,276,160	17,784,151	21,099,679
Accrued interest and handling fee	-	473,399	-	895,838	-	1,124,046
Fees paid and received upon loan disbursement	(84,917)	(54,811)	(40,555)	(13,803)	145,272	178,899
Less: expected credit losses	(1,895,257)	(2,585,928)	(624,450)	(2,058,487)	(501,776)	(12,162,341)
Total finance lease receivable, net	18,278,354	10,827,447	21,178,060	9,099,708	17,427,647	10,240,283

The table below shows the credit quality and the maximum exposure to credit risk based on delays days and year-end stage classification. The Company does not have the system of internal credit rating. The amounts presented are gross of expected credit losses.

	31.12.2022			
	Stage 1	Stage 2	Stage 3	Total
- not overdue	24,544,834	374,570	346,148	25,265,552
- overdue less than 30 days	2,416,863	284,445	70,773	2,772,081
- overdue more than 31 days and less than 60 days	-	228,923	95,524	324,447
- overdue more than 60 days	-	9,261	5,215,645	5,224,906
Total gross finance lease receivables	26,961,697	897,199	5,728,090	33,586,986

	31.12.2021			
	Stage 1	Stage 2	Stage 3	Total
- not overdue	26,396,033	444,493	235,831	27,076,357
- overdue less than 30 days	2,125,521	698,140	88,293	2,911,954
- overdue more than 31 days and less than 60 days	-	372,625	104,880	477,505
- overdue more than 60 days	-	-	2,494,889	2,494,889
Total gross finance lease receivables	28,521,554	1,515,258	2,923,893	32,960,705

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

*(In Georgian Lari)***12. Finance lease receivables (Continued)**

	01.01.2021			
	Stage 1	Stage 2	Stage 3	Total
- not overdue	23,304,196	245,567	224	23,549,987
- overdue less than 30 days	1,813,636	380,766	512,665	2,707,067
- overdue more than 31 days and less than 60 days	-	-	300,355	300,355
- overdue more than 60 days	-	-	13,774,638	13,774,638
Total gross finance lease receivables	25,117,832	626,333	14,587,882	40,332,047

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to finance lease receivables are, as follows:

	Finance lease receivables		
	31.12.2022	Change during the year	01.01.2022
Stage 1	26,945,320	(1,576,234)	28,521,554
Stage 2	884,102	(631,156)	1,515,258
Stage 3	5,757,564	2,833,671	2,923,893
	33,586,986	626,281	32,960,705

	Finance lease receivables		
	31.12.2021	Change during the year	01.01.2021
Stage 1	28,521,554	3,403,722	25,117,832
Stage 2	1,515,258	888,925	626,333
Stage 3	2,923,893	(11,663,989)	14,587,882
	32,960,705	(7,371,342)	40,332,047

	Credit loss allowance		
	31.12.2022	Change during the year	01.01.2022
Stage 1	662,974	54,772	608,202
Stage 2	139,583	(151,036)	290,619
Stage 3	3,678,628	1,894,512	1,784,116
	4,481,185	1,798,248	2,682,937

	Credit loss allowance		
	31.12.2021	Change during the year	01.01.2021
Stage 1	608,202	320,042	288,160
Stage 2	290,619	246,802	43,817
Stage 3	1,784,116	(10,548,024)	12,332,140
	2,682,937	(9,981,180)	12,664,117

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

*(In Georgian Lari)***12. Finance lease receivables (Continued)**

The following tables show reconciliations from the opening to the closing balances of the expected credit losses for finance lease receivables for the year ended 31 December 2022 and 31 December 2021:

	2022			
	Stage 1	Stage 2	Stage 3	TOTAL
Finance lease receivables				
Balance at 1 January	28,521,554	1,515,258	2,923,893	32,960,705
Transfer to Stage 1	381,280	(363,891)	(17,389)	-
Transfer to Stage 2	(604,374)	626,131	(21,757)	-
Transfer to Stage 3	(2,871,420)	(632,322)	3,503,742	-
New financial assets originated or purchased	12,393,266	304,463	1,212,244	13,909,973
Receivables settled	(8,165,630)	(230,931)	(46,255)	(8,442,816)
Receivables written off	(667,606)	(225,359)	(530,750)	(1,423,715)
Receivables partially settled	(2,041,750)	(109,247)	(1,266,164)	(3,417,161)
Balance at 31 December	26,945,320	884,102	5,757,564	33,586,986
	2022			
	Stage 1	Stage 2	Stage 3	TOTAL
Impairment allowance				
Balance at 1 January	608,202	290,619	1,784,116	2,682,937
Transfer to Stage 1	65,306	(59,958)	(5,348)	-
Transfer to Stage 2	(20,308)	27,001	(6,693)	-
Transfer to Stage 3	(84,899)	(131,817)	216,716	-
Impairment for new financial assets originated or purchased	296,354	48,826	578,841	924,021
Reversed impairment for settled receivables	76,369	(29,468)	(3,881)	43,020
Reversed impairment for written off receivables	(21,639)	(44,680)	(311,913)	(378,232)
Net remeasurement of loss allowance	(256,411)	39,060	1,426,790	1,209,439
Balance at 31 December	662,974	139,583	3,678,628	4,481,185
	2021			
	Stage 1	Stage 2	Stage 3	TOTAL
Finance lease receivables				
Balance at 1 January	25,117,832	626,333	14,587,882	40,332,047
Transfer to Stage 1	244,428	(139,978)	(104,450)	-
Transfer to Stage 2	(752,278)	826,061	(73,783)	-
Transfer to Stage 3	(1,116,022)	(118,053)	1,234,075	-
New financial assets originated or purchased	15,852,865	685,194	889,907	17,427,966
Receivables settled	(8,929,835)	(169,675)	(116,390)	(9,215,900)
Receivables written off	(942,188)	(141,532)	(12,940,327)	(14,024,047)
Receivables partially settled	(953,248)	(53,092)	(553,021)	(1,559,361)
Balance at 31 December	28,521,554	1,515,258	2,923,893	32,960,705

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

*(In Georgian Lari)***12. Finance lease receivables (Continued)**

	2021			TOTAL
	Stage 1	Stage 2	Stage 3	
Impairment allowance				
Balance at 1 January	288,160	43,817	12,332,140	12,664,117
Transfer to Stage 1	40,804	(9,459)	(31,345)	-
Transfer to Stage 2	(13,084)	30,646	(17,562)	-
Transfer to Stage 3	(16,013)	(9,135)	25,148	-
Impairment for new financial assets originated or purchased	330,188	132,320	414,530	877,038
Reversed impairment for settled receivables	(97,312)	(10,472)	(37,598)	(145,382)
Reversed impairment for written off receivables	(16,710)	(10,476)	(11,208,577)	(11,235,763)
Net remeasurement of loss allowance	92,169	123,378	307,380	522,927
Balance at 31 December	608,202	290,619	1,784,116	2,682,937

13. Loans and advances to customers

	31.12.2022	31.12.2021	01.01.2021
Loans and advances to customers	20,924,325	22,161,792	35,737,234
Expected credit losses	(3,210,194)	(2,088,821)	(14,731,530)
Total net loans and advances to customers at amortised cost	17,714,131	20,072,971	21,005,704

	31 December 2022		
	Minimum lease payments	Unearned finance income	Loans and advances to customers, gross
Up to one year	15,635,993	5,918,926	9,717,067
Years 2 through 5 combined	17,636,955	7,423,112	10,213,843
More than 5 years	1,311,645	318,230	993,415
	34,584,593	13,660,268	20,924,325

	31 December 2021		
	Minimum lease payments	Unearned finance income	Loans and advances to customers, gross
Up to one year	15,490,722	6,830,400	8,660,322
Years 2 through 5 combined	21,224,863	9,079,169	12,145,694
More than 5 years	1,837,593	481,817	1,355,776
	38,553,178	16,391,386	22,161,792

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

*(In Georgian Lari)***13. Loans and advances to customers (Continued)**

	31 December 2021		
	Minimum lease payments	Unearned finance income	Loans and advances to customers, gross
Up to one year	29,898,063	6,701,763	23,196,300
Years 2 through 5 combined	19,239,115	7,559,665	11,679,450
More than 5 years	1,143,061	281,577	861,484
	50,280,239	14,543,005	35,737,234

	31.12.2022		31.12.2021		01.01.2021	
	Non-current	Current	Non-current	Current	Non-current	Current
Loans and advances to customers	11,309,499	9,521,960	13,526,202	8,044,360	12,439,329	21,847,313
Accrued interest and handling fee	-	373,809		627,818		1,162,208
Fees paid and received upon loan disbursement	(153,125)	(127,818)	(24,732)	(11,856)	101,605	186,779
Less: expected credit losses	(1,178,243)	(2,031,951)	(468,207)	(1,620,614)	(464,789)	(14,266,741)
Total Loans and advances to customers, net	9,978,131	7,736,000	13,033,263	7,039,708	12,076,145	8,929,559

	31.12.2022			
	Stage 1	Stage 2	Stage 3	Total
- not overdue	14,420,968	307,720	244,325	14,973,013
- overdue less than 30 days	1,698,791	264,506	35,442	1,998,739
- overdue more than 31 days and less than 60 days	-	210,085	145,843	355,928
- overdue more than 60 days	-	-	3,596,645	3,596,645
Total gross Loans and advances to customers	16,119,759	782,311	4,022,255	20,924,325

	31.12.2021			
	Stage 1	Stage 2	Stage 3	Total
- not overdue	16,581,638	380,660	132,377	17,094,675
- overdue less than 30 days	1,946,124	697,531	113,742	2,757,397
- overdue more than 31 days and less than 60 days	-	314,185	51,310	365,495
- overdue more than 60 days	-	-	1,944,225	1,944,225
Total gross Loans and advances to customers	18,527,762	1,392,376	2,241,654	22,161,792

	01.01.2021			
	Stage 1	Stage 2	Stage 3	Total
- not overdue	15,962,712	268,484	10,198	16,241,394
- overdue less than 30 days	2,018,580	443,453	677,949	3,139,982
- overdue more than 31 days and less than 60 days	-	-	285,804	285,804
- overdue more than 60 days	-	-	16,070,054	16,070,054
Total gross Loans and advances to customers	17,981,292	711,937	17,044,005	35,737,234

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

*(In Georgian Lari)***13. Loans and advances to customers (Continued)**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to loans and advances to customers are, as follows:

	Loans and advances to customers		
	31.12.2022	Change during the year	01.01.2022
Stage 1	16,171,961	(2,355,801)	18,527,762
Stage 2	770,659	(621,717)	1,392,376
Stage 3	3,981,705	1,740,051	2,241,654
	20,924,325	(1,237,467)	22,161,792

	Loans and advances to customers		
	31.12.2021	Change during the year	01.01.2021
Stage 1	18,527,762	546,469	17,981,293
Stage 2	1,392,376	680,439	711,937
Stage 3	2,241,654	(14,802,350)	17,044,004
	22,161,792	(13,575,442)	35,737,234

	Credit loss allowance		
	31.12.2022	Change during the year	01.01.2022
Stage 1	415,178	(12,923)	428,101
Stage 2	124,552	(144,606)	269,158
Stage 3	2,670,464	1,278,902	1,391,562
	3,210,194	1,121,373	2,088,821

	Credit loss allowance		
	31.12.2021	Change during the year	01.01.2021
Stage 1	428,101	202,141	225,960
Stage 2	269,158	217,002	52,156
Stage 3	1,391,562	(13,061,852)	14,453,414
	2,088,821	(12,642,709)	14,731,530

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

*(In Georgian Lari)***13. Loans and advances to customers (Continued)**

The following tables show reconciliations from the opening to the closing balances of the expected credit losses for loans and advances to customers for the year ended 31 December 2022 and 31 December 2021:

Loans and advances to customers	2022			
	Stage 1	Stage 2	Stage 3	TOTAL
Balance at 1 January	18,527,762	1,392,376	2,241,654	22,161,792
Transfer to Stage 1	246,037	(219,345)	(26,692)	-
Transfer to Stage 2	(458,849)	465,133	(6,284)	-
Transfer to Stage 3	(1,784,698)	(428,100)	2,212,798	-
New financial assets originated or purchased	7,457,980	302,740	788,974	8,549,694
Receivables settled	(5,793,194)	(216,057)	(46,803)	(6,056,054)
Receivables written off	(757,325)	(427,188)	(532,001)	(1,716,514)
Receivables partially settled	(1,265,752)	(98,900)	(649,941)	(2,014,593)
Balance at 31 December	16,171,961	770,659	3,981,705	20,924,325

Impairment allowance	2022			
	Stage 1	Stage 2	Stage 3	TOTAL
Balance at 1 January	428,101	269,158	1,391,562	2,088,821
Transfer to Stage 1	46,191	(37,978)	(8,213)	-
Transfer to Stage 2	(12,933)	14,870	(1,937)	-
Transfer to Stage 3	(60,476)	(87,059)	147,535	-
Impairment for new financial assets originated or purchased	182,530	47,088	365,739	595,357
Reversed impairment for settled receivables	(3,187)	(32,451)	(13,624)	(49,262)
Reversed impairment for written off receivables	(25,865)	(85,269)	(301,552)	(412,686)
Net remeasurement of loss allowance	(139,183)	36,193	1,090,954	987,964
Balance at 31 December	415,178	124,552	2,670,464	3,210,194

Loans and advances to customers	2021			
	Stage 1	Stage 2	Stage 3	TOTAL
Balance at 1 January	17,981,293	711,937	17,044,004	35,737,234
Transfer to Stage 1	340,958	(170,241)	(170,717)	-
Transfer to Stage 2	(755,771)	836,054	(80,283)	-
Transfer to Stage 3	(799,644)	(124,394)	924,038	-
New financial assets originated or purchased	9,320,228	610,161	524,657	10,455,046
Receivables settled	(6,820,256)	(160,942)	(136,450)	(7,117,648)
Receivables written off	(719,613)	(204,324)	(15,363,212)	(16,287,149)
Receivables partially settled	(19,433)	(105,875)	(500,383)	(625,691)
Balance at 31 December	18,527,762	1,392,376	2,241,654	22,161,792

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

*(In Georgian Lari)***13. Loans and advances to customers (Continued)**

	2021			
	Stage 1	Stage 2	Stage 3	TOTAL
Impairment allowance				
Balance at 1 January	225,960	52,156	14,453,414	14,731,530
Transfer to Stage 1	52,074	(11,397)	(40,677)	-
Transfer to Stage 2	(16,233)	35,376	(19,143)	-
Transfer to Stage 3	(12,803)	(9,566)	22,369	-
Impairment for new financial assets originated or purchased	218,203	120,144	241,360	579,707
Reversed impairment for settled receivables	(81,118)	(10,962)	(43,113)	(135,193)
Reversed impairment for written off receivables	(13,947)	(16,920)	(13,288,796)	(13,319,663)
Net remeasurement of loss allowance	55,965	110,327	66,148	232,440
Balance at 31 December	428,101	269,158	1,391,562	2,088,821

14. Credit loss expense

The table below shows the movement of finance lease receivables' expected credit loss in the statement of profit or loss and other comprehensive income for the years ended 31 December 2022 and 2021:

	2022	2021
Change in impairment of finance lease receivables	(1,798,248)	9,981,180
Written off debts	(1,430,112)	(25,486,769)
Change in impairment of loans and advances to customers	(1,121,373)	12,642,709
Total credit loss expense	(4,349,733)	(2,862,880)

15. Other receivables

	31.12.2022	31.12.2021
Receivable from related party	629,309	629,309
Receivable from quick payments providers	179,023	163,671
Advances paid for goods and services	22,344	30,459
Receivable from sale of portfolio	-	327,952
Receivable commission fees	-	283,397
Other	48,597	138,259
	879,273	1,573,047

As of 31 December 2022, the Company has receivables due from an entity under common control in the amount of GEL 629,309 (31 December 2021: GEL 629,309) from the sale of repossessed vehicles.

The Company's exposure to credit and currency risks are disclosed in Note 21.

16. Cash at bank

	31.12.2022	31.12.2021
Bank balances	2,359,556	1,815,364
Cash at bank in the statement of financial position and in the statement of cash flows	2,359,556	1,815,364

The Company's exposure to credit and currency risks are disclosed in Note 21.

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For the year ended 31 December 2022

*(In Georgian Lari)***17. Equity****(a) Charter capital**

As at 31 December 2022 the authorized and fully paid capital of the Company is GEL 200,000 (2021: GEL 200,000).

(b) Other reserves

Other reserves represent non-cash distributions by the Company to the Parent, see Note 20.

(c) Dividends

In accordance with Georgian legislation, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRSs.

The Company has not declared any dividends in 2022 and 2021.

(d) Capital management

The Company has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Company's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of Company's revenues and profit, and long-term investment plans mainly financed by the Company's operating cash flows. With these measures the Company aims for steady profits growth.

18. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, currency and liquidity risk, see Note 21.

	<u>31.12.2022</u>	<u>31.12.2021</u>
Non-current liabilities		
Financing received from P2P investors	2,863,326	11,551,232
Loans from Eveling Group S.A.	-	5,168,400
	<u>2,863,326</u>	<u>16,719,632</u>
Current liabilities		
Financing received from P2P investors	2,480,728	3,223,498
Loan from Ardshinbank Armenia	-	781,516
Loans from Eveling Group S.A.	-	57,414
	<u>2,480,728</u>	<u>4,062,428</u>
	<u>5,344,054</u>	<u>20,782,060</u>

18. Loans and borrowings (Continued)**(a) Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	31.12.2022		31.12.2021	
				Face value	Carrying amount	Face value	Carrying amount
Financing received from P2P investors	EUR, GBP	7%-13.5%	2026	5,344,054	5,344,054	14,774,730	14,774,730
Loan from Ardshinbank Armenia	EUR	7.8%	2022	-	-	781,516	781,516
Loans from Eveling Group S.A.	EUR	13%	2023	-	-	5,225,814	5,225,814
Total interest-bearing liabilities				5,344,054	5,344,054	20,782,060	20,782,060

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities:

	2022	2021
1 January	20,782,060	24,085,812
Proceeds from borrowings	13,064,104	22,197,929
Interest expense	1,395,193	2,379,377
Repayment of principal	(24,620,776)	(22,315,772)
Repayment of interest	(1,464,079)	(2,315,245)
Net foreign exchange loss	(3,812,448)	(3,250,041)
31 December	5,344,054	20,782,060

19. Other liabilities

	31.12.2022	31.12.2021
Accrued liabilities against related parties	229,147	412,468
Salary payables	166,982	150,397
Payable for attracted funding through P2P platform	-	54,408
Other payables	229,715	382,630
	625,844	999,903

The Company's exposure to currency and liquidity risk related to other liabilities is disclosed in Note 21.

20. Provision for financial guarantee

In 2018 the Company entered into a financial guarantee agreement issued in favor of bondholders of Eveling Group S.A. The guarantee was issued to secure Eveling Group S.A. exposure after issuing corporate bonds (as of 31 December 2022 the total par value of bonds is EUR 150 mln, as of 31 December 2021 - EUR 150 mln¹), which are listed on the Open Market of the Frankfurt Stock Exchange. Under the guarantee agreement, the Company and other entities under common control irrevocably guarantee the payment of Eveling Group S.A. liabilities towards its bondholders in case of Eveling Group S.A. default under the provisions of bond prospectus.

In 2021 the Company entered into a financial guarantee agreement issued in favor of lender Ardshinbank CJSC of Mogo UCO LLC. The guarantee was issued to secure the loan received by Mogo UCO LLC in the amount of AMD

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

*(In Georgian Lari)***20. Provision for financial guarantee (Continued)**

3,400 mln. Under the guarantee agreement, the Company and other entities under common control irrevocably guarantee the payment of Mogo UCO LL liabilities towards its lender in case of Mogo UCO LLC default.

The Company did not receive compensation for the guarantees provided. Fair value of the guarantee is recognized as liability and as a distribution of equity under "Other reserves". The amount of the financial guarantee liability is amortized to income in accordance with IFRS 15 on a straight line basis till bond maturity, and loan maturity (2 February 2024).

As at 31 December 2022 Eleving Group S.A. was rated "B-" by a third party (31 December 2021: "B-").

¹ - In October 2021 the original guarantee agreement was revised following Eleving Group S.A. tap bond issue of additional EUR 50 million. The Company did not receive compensation for guarantee provided. The amended guarantee agreement increased the total exposure of the Company. The change was deemed to be substantial modification of the guarantee agreement. Accordingly, the original guarantee was derecognized and a new financial guarantee was recognized.

Liabilities under financial guarantee agreements are amortized through the statement of profit or loss and other comprehensive income on a straight-line basis till bond maturity. In 2022 GEL 234,716 was recognized in the statement of profit or loss and other comprehensive income as other operating income (2021: GEL 659,651), see also Note 10.

At the end of June, 2022 a new guarantor - (UAB Renti) added, so remeasurement was performed as substantial modifications of financial assets occurred. Based on new recalculation (as of 30 June 2022) the guarantee's fair value was measured as Zero, because of the fact that LUX assets (Eleving Group S.A. other assets) covers more than total exposures. Change in the fair value recognized as a decrease in other reserves. Other reserves were transferred to retained earnings upon extinguishment of liabilities under the financial guarantee.

After initial recognition, the liabilities under the financial guarantees are measured at the higher of the amount initially recognized less cumulative amortization recognized through linear amortization and an ECL provision. The ECL provision for the financial guarantees are a Stage 1 exposures. The ECL for the guarantees issued by the Company is lower than related carrying amount as at 31 December 2022 and 31 December 2021 and therefore no ECLs were recognized.

	Provision for financial guarantee	Other reserves
1 January 2021	1,056,328	(1,794,773)
Recognition of modified financial guarantee	1,712,055	-
Derecognition of modified financial guarantee	(438,513)	-
Recognition of issued financial guarantee	233,844	-
Remeasurement of financial guarantee	(468,728)	(1,038,658)
Foreign exchange and other movements	(114,651)	-
Amortisation (Note 10)	(659,651)	-
31 December 2021	1,320,684	(2,833,431)
Remeasurement of financial guarantee	(912,462)	2,599,586
Foreign exchange and other movements	(122,498)	-
Amortisation (Note 10)	(234,716)	-
31 December 2022	51,008	(233,845)

21. Fair values and risk management**(a) Accounting classifications and fair values**

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Company has determined fair values of financial assets and liabilities using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model. Fair value of all financial assets and liabilities is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Management believes that the fair value of the Company's financial assets and liabilities approximates their carrying amounts.

(b) Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk (see Note 21 (b)(ii));
- liquidity risk (see Note 21 (b)(iii));
- market risk (see Note 21 (b)(iv)); and
- interest rate risk (see Note 21 (b)(v)).

(i) Risk management framework

The Supervisory Board has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(ii) Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's finance lease receivables, loans and advances to customers, other receivables and cash at bank.

The key areas of credit risk policy cover lease and loan granting process (including solvability check), monitoring methods, as well as decision making principles. The Company operates by applying a clear set of finance lease and loan granting criteria. These criteria include assessing the credit history of customer, means of lease and loan repayment and understanding the object. The Company takes into consideration both quantitative and qualitative factors when assessing the creditworthiness of the customer. Based on this analysis, the Company sets the credit limit for each and every customer. When the lease or loan agreement has been signed, the Company monitors the object and the customer's solvency. The Company has developed the monitoring process so that it helps to quickly spot any possible non-compliance with the provisions of the agreement. The receivable balances are monitored on an ongoing basis to ensure that the Company's exposure to bad debts is minimized, and, where appropriate, provisions are being made.

The Company does not have a significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The maximal credit risk exposure for finance lease receivables and loans and advances to customers are presented in Note 12 and Note 13.

As at 31 December 2022 and 2021 other receivables mainly consist of exposure towards an entity under common control of the Ultimate Parent Company, with the credit rating of B-. Management estimates that the impact of expected credit loss ("ECL") is immaterial at all reporting dates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

*(In Georgian Lari)***21. Fair values and risk management (Continued)**

Cash at bank is held with the banks, which are rated BB- (long-term rating) and B (short-term rating), based on rating agency Fitch ratings. As at 31 December 2022 and 2021 all balances are neither overdue nor impaired and categorized under Stage 1. The Company does not expect any counterparty to fail to meet its obligations.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters or global pandemic.

The Company manages its liquidity risk by arranging an adequate amount of committed credit facilities with the related parties.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments:

31 December 2022		Contractual cash flows			
Non-derivative financial liabilities	Carrying amount	Total	Up to 1 year	1-5 years	Over 5 years
Loans and borrowings	5,344,054	6,209,280	2,890,478	3,139,855	178,947
Lease liabilities	1,128,658	1,259,609	484,702	774,907	-
Trade payables	153,287	153,287	153,287	-	-
Other financial liabilities	229,147	229,147	229,147	-	-
Issued financial guarantee	9,591,820	9,591,820	9,591,820	-	-
	<u>16,446,966</u>	<u>17,443,143</u>	<u>13,349,434</u>	<u>3,914,762</u>	<u>178,947</u>

31 December 2021		Contractual cash flows			
Non-derivative financial liabilities	Carrying amount	Total	Up to 1 year	1-5 years	Over 5 years
Loans and borrowings	20,782,060	21,498,955	3,170,044	16,508,390	1,820,521
Lease liabilities	1,610,124	3,111,678	818,085	2,293,593	-
Trade payables	456,126	456,126	456,126	-	-
Other financial liabilities	466,876	466,876	466,876	-	-
Issued financial guarantee	541,070,160	541,070,160	541,070,160	-	-
	<u>564,385,346</u>	<u>566,603,795</u>	<u>545,981,291</u>	<u>18,801,983</u>	<u>1,820,521</u>

It is not expected that the cash flows included in the maturity analysis table above could occur significantly earlier, or at significantly different amounts.

As at 31 December 2022 the maximum amount of the contingent liability under the issued guarantee to Eleveling Group S.A. and Mogo UCO LLC is EUR 0 (31 December 2021: EUR 150 million) equivalent to GEL 0 (31 December 2021: GEL 525,600,000), and AMD 1,400 million (31 December 2021: 2,400) equivalent to GEL 9,591,820 and 15,470,160 respectively, which could be recalled on demand. The management expects that the guarantees will not be drawn before expiry of the commitment.

For the year ended 31 December 2022

*(In Georgian Lari)***21. Fair values and risk management (Continued)****(iv) Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company incurs financial liabilities, in order to manage market risks. The Company does not apply hedge accounting in order to manage volatility in profit or loss.

Currency risk

The Company is exposed to currency risk to the extent that there is a mismatch between currencies in which purchases and borrowings are denominated and the functional currency of the Company. The functional currency of the Company is Georgian Lari (GEL). The currency in which these transactions are primarily denominated is EUR.

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows:

	EUR - denominated	EUR - denominated
	2022	2021
Cash at banks	386,282	699,247
Loans and borrowings	(2,480,728)	(20,782,060)
Provision for financial guarantee	-	(1,157,063)
Other payables	(231,072)	(466,876)
Net exposure	(2,325,518)	(21,706,752)

The following significant exchange rates have been applied during the year:

	Average rate		Reporting date spot rate	
	2022	2021	2022	2021
EUR 1	3.0792	3.8140	2.8844	3.5040

Sensitivity analysis

A reasonably possible strengthening/(weakening) of the GEL, as indicated below, against EUR at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sale and purchases:

	Profit or loss	
	Strengthening of GEL	Weakening of GEL
31 December 2022		
EUR (20% movement)	465,104	(465,104)
31 December 2021		
EUR (20% movement)	4,341,350	(4,341,350)

(v) Interest rate risk

The Company is not exposed to interest rate risk, as all lease receivables, loans and advances to customers and borrowings have fixed interest rates. The Company does not account for any fixed-rate financial instruments as FVTPL or FVOCI. Therefore, a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

*(In Georgian Lari)***22. Leases****(a) Leases as lessee**

The Company has entered into several lease agreements for office premises and branches. Lease terms and rental calculations vary between different lease agreements. The leases typically run for a minimum non-cancellable period of 1-3 years.

Information about leases for which the Company is a lessee and records a right-of-use asset and a lease liability is presented below, movements of right-of-use asset is presented in Note 11.

Amounts recognised in profit or loss**2022 - Leases under IFRS 16**

Interest on lease liabilities	99,671
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2021 - Leases under IFRS 16

Interest on lease liabilities	65,982
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Amounts recognised in statement of cash flows

	<u>2022</u>
Interest paid on lease liability	(99,671)
Repayment of lease liability	(695,862)
Total cash outflow for leases	<u>(795,533)</u>

	<u>2021</u>
Interest paid on lease liability	(65,982)
Repayment of lease liability	(722,562)
Total cash outflow for leases	<u>(788,544)</u>

(b) Lease term and extension options

The Company interprets lease enforceability in lease contracts broadly. A lease term reflects the Company's reasonable estimate of the period during which the underlying asset will be used. In determining the lease term the Company bases its judgement on the broader economics of the contract and the underlying asset, rather than the contractual terms only and allows factors like economic penalties, legislative approach to renewal of the lease and forthcoming changes in regulation to be effectively captured in the estimate of the lease term.

In determination of the enforceable period of the lease, the Company also considers the costs of abandoning or dismantling non-removable leasehold improvements, cost of relocation, etc.

All leases are cancellable by the lessee before the maturity of the lease contracts. The Company analysed all the relevant facts and circumstances and concluded that the lease term mostly equals to the period till contractual maturity.

23. Commitments

As at 31 December 2022, the Company has issued a guarantee to the Ultimate Parent Company and fellow subsidiary - Mogo UCO LLC. According to the guarantee contracts the Company unconditionally and irrevocably guarantees the payment of the liabilities of the Ultimate Parent Company and Mogo UCO LLC in amount of EUR 0 million (31 December 2021: EUR 150 million) and AMD 1,400 million (31 December 2021: 2,400 million), respectively, towards the bondholders and lenders in case of default by the Ultimate Parent Company and a fellow subsidiary, under the provisions of bond prospectus and loan agreement, respectively (see also Note 20).

24. Contingencies**(a) Insurance**

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its property, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

(b) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In December of 2019 the Georgian tax administration has initiated a transfer pricing audit for the Company. The audit covers financial years 2016, 2017 and 2018. The final decision issued by the Georgian tax administration has been received with respect to 2016, 2017 and 2018. The final decision related to fiscal year 2016 was appealed at Tbilisi City Court. The Georgian tax administration has challenged that interest rate applied by Eleving Group S.A. on loan issued to the Company complies with arm's length principle. According to mentioned decisions additional tax charges in the amount of GEL 1,162 thousand, GEL 892 thousand and GEL 1,148 thousand have been imposed on the Company for 2016, 2017 and 2018, respectively. The amounts have been reduced within the litigation process, partly covered from the existing positive balance with the Georgian state budget and the rest amount was paid therein.

Management of the Company considers that the interest rate applied on the loan from Eleving Group S.A. is a market rate. Since January 2020 the Company started to appeal the decisions of the Georgian tax administration.

Management's position is to use all available local and international measures to justify its transfer pricing policies and cancel the final decisions for 2016 and 2018 as well as the existing decision for 2017. Management concludes it is not probable that the Georgian Tax administration will accept an uncertain tax treatment. The Company has not recognized tax expenses related to transfer pricing audit in its financial statements.

(c) Litigations

In the ordinary course of business, the Company is subject to legal actions, litigations and complaints. Management believes that the ultimate liability not already provided for, 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.

25. Related parties**(a) Parent and ultimate controlling party**

The Company's immediate parent company is AS Eleving Luna, a Company incorporated in Latvia (see Note 1 (b)). The Company's ultimate parent company is Eleving Group S.A.. The annual report of Eleving Group S.A. is publicly available on its website: www.eleving.com.

(b) Transactions with key management personnel**Key management remuneration**

Key management received the following remuneration during the year, which is included in employees' salaries expenses (see Note 9):

25. Related parties (Continued)

	<u>2022</u>	<u>2021</u>
Salaries and bonuses	246,387	168,323
	<u>246,387</u>	<u>168,323</u>

(c) Other related party transactions

	<u>Transaction value for the year ended 31 December</u>		<u>Outstanding balance as at 31 December</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Sale of goods and services				
Fellow subsidiaries:				
Other receivables (Note 15)	-	-	629,309	629,309

	<u>Transaction value for the year ended 31 December</u>		<u>Outstanding balance as at 31 December</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Purchase of goods and services				
Fellow subsidiaries:				
Other liabilities (Note 19)	3,597,589	3,549,439	229,147	412,468
Car dealership commission	1,122	4,875	431	1,553

	<u>Transaction value for the year ended 31 December</u>		<u>Outstanding balance as at 31 December</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Provision for financial guarantee				
Ultimate Parent Company (Note 20)	(1,157,063)	100,735	-	1,157,063
Fellow subsidiary	(112,613)	163,621	51,008	163,621

In 2022 amortised income on financial guarantee amounted to GEL 357,214 (2021: GEL 774,302), see Note 20.

	<u>Transaction value for the year ended 31 December</u>		<u>Outstanding balance as at 31 December</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>

Loans given:**Loans received:**

Ultimate Parent Company (Note 18)	-	9,492,004	-	5,225,814
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All outstanding balances with related parties except for the loan received and the provision for financial guarantee are to be settled in cash within six months of the reporting date. None of the balances are secured. No expense has been recognised in the current year or prior year for bad or doubtful debts in respect of the amounts owed by the related parties.

During 2022 interest accrued on the EUR-denominated loan from the Ultimate Parent Company has amounted equivalent to GEL 200,546 (2021: GEL 270,953). The Company repaid principal and accrued interest in the amount equivalent to GEL 5,061,955 (2021: GEL 4,213,918).

26. Subsequent events**- Establishing new company**

In March 2023 under the decision of the sole shareholder of Mogo LLC - AS Eleveling Luna, there has been resolved to establish Limited Liability Company Mogo Finance Mikromoliya Tashkiloti and register it in the State Register of the Republic of Uzbekistan in accordance with the procedure and laws of the Republic of Uzbekistan.

To ensure the activity of the newly established LLC, the Charter fund in the amount of 2,000,000,000 (two billion) sums should be established and fully formed at the expense of the founders' funds or fixed assets within 1 year from the date of the state registration of the LLC.

- Money transferring

On 20 April 2023 Mogo LLC transferred USD174,500 as contribution in the capital of Mogo Finance Mikromoliya Tashkiloti, therefore it became 98% shareholder of the newly established company.

- Sale of Lease Portfolio

On 27 March 2023 an agreement of sale of lease portfolio was made between Mogo LLC ("seller") and FinHub Georgia LLC ("buyer").

Company sold the portfolio of impaired finance lease receivables and loans to customers with carrying amount of GEL 3,570,123 for a consideration of GEL 206,090 (which represents 8% of outstanding principal amount).

27. Basis of measurement

The financial statements are prepared on the historical cost basis except as disclosed in the accounting policies below.

28. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Income from debt collection activities and earned penalties

Income from debt collection activities and penalties is recognized in the statement of profit or loss and other comprehensive income at the moment when the likelihood of consideration being settled for such services is high, therefore income is recognized only when actual payment for provided services is actually received. Income from penalties arise in case customers breach the contractual terms of a lease or loan agreements, such as exceeding the payment date. In those situations, the Company is entitled to charge the customers in accordance with the agreement terms. The Company recognizes income from penalties at the moment of cash receipt as likelihood and timing of settlement is uncertain. In case customers do not settle the penalty amount, the Company is entitled to enforce repossession of the collateral.

Income from debt collection activities typically arises when customers delay the payments due. The Company's income encompasses a compensation of internal and external costs incurred by the Company in relation to debt management, legal fees as well as repossession of vehicle in case of the lease or the loan agreement termination, which is recharged to the customers in accordance with the agreement terms. Debt collection income is recognised on net (agent) basis as these amounts are recharged to the customers in accordance with agreement terms and the Company does not control these services before they are transferred to a customer. The performance obligation is satisfied when respective service has been recharged to a customer when issuing the next monthly invoice in accordance with the lease or the loan agreement schedule.

(b) Finance income and costs

The Company's finance income and finance costs include:

- interest expense;
- interest income;
- the foreign currency gain or loss on financial assets and financial liabilities.

Interest income or expense is recognised using the effective interest method.

28. Significant accounting policies (Continued)

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(c) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Company at exchange rates ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in translation are recognised in profit or loss.

(d) 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 Company 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.

(e) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2023.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However, some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

28. Significant accounting policies (Continued)

Tax reimbursement is available for the current tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2018 or further years.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

(ii) Deferred tax

Due to the nature of the new taxation system described above, the entities registered in Georgia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise.

Tax losses accrued in the prior periods cannot be utilized against the future taxable profits.

(f) Property, plant and equipment*Recognition and measurement*

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

The cost of replacing part 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 part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately. Land is not depreciated.

The estimated useful lives are as follows:

- Equipment	2-5 years
- Leasehold improvements	2-5 years

Derecognition

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

(g) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite and are limited to 2-5 years.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

28. Significant accounting policies (Continued)

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets.

The Company does not have intangible assets with indefinite useful lives.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(h) Transactions with peer-to-peer platforms*Background*

The Company has signed cooperation agreements with an operator of a peer-to-peer (P2P) investment internet-based platform. Cooperation agreements and the related assignment agreements are in force until parties agree to terminate. Purpose of the cooperation agreement for the Company is to attract funding through the P2P platform.

P2P platform makes possible for an individual and corporate investors to obtain fully proportionate interest cash flows and the principal cash flows from debt instruments issued by the Company in an exchange for an upfront payment. These rights are established through assignment agreements between investors and P2P platform, who is acting as an agent on behalf of the Company.

Assignment agreements are of two types:

- Agreements with recourse rights which require the Company to guarantee full repayment of invested funds by the investor in case of a default of the Company's customer (buy back guarantee);
- Agreements without recourse rights which do not require the Company to guarantee repayment of invested funds by the investor in case of default of the customer (no buy back guarantee).

The Company has only first type of agreements with investors.

Funding attracted through peer-to-peer platform.

Liabilities arising from assignments are initially recognized at the fair value being consideration received from investors net of issue costs associated with the loan.

Liabilities to investors are recognized in loans and borrowings and are treated as loans received, see Note 18.

Assignments with recourse rights provide for direct recourse to the Company, thus do not meet the requirements to be classified as pass-through arrangement in accordance with IFRS 9.

Therefore, the Company's respective debt instruments do not qualify to be considered for partial derecognition and interest expense paid to investors is shown in gross amount under interest expense, see Note 6.

(i) Financial instruments*Financial assets**Initial recognition*

Loans and advances to customers are recognized when funds are transferred to the customers' accounts. Other assets are recognized on the date when the Company enters into the contract giving rise to the financial instruments.

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(In Georgian Lari)

28. Significant accounting policies (Continued)

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described further in the accounting policies. Financial instruments are initially measured at their fair value (which is generally equal to the transaction price) adjusted for transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities recorded at FVTPL.

Classification of financial assets

The Company measures loans and advances to customers, loans to related parties, receivables from related parties, cash equivalents and other receivables at amortized cost if both of the following conditions are met:

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

Business model assessment

The Company determines its business model at the level that best reflects how it manages the group of financial assets to achieve its business objective - the risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed. The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity are also important aspects of the Company's assessment. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward. The assessed business model is with the intention to hold financial assets in order to collect contractual cash flows. Sales that take place from these portfolios relate to credit events. Loans from portfolios might be sold to debt collector agencies when underlying debtors have defaulted on their obligations. When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. No financial liability reclassifications take place.

SPPI test

As a second step of its classification process the Company assesses, where relevant, the contractual terms of the financial assets to identify whether they meet the SPPI test. Financial assets subject to SPPI testing are loans and advances to customers (including financial assets arising from sales and leaseback transactions, as discussed in a separate section of this note) and loans to related parties that solely include payments of principal and interest. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company principally considers:

- contingent events that would change the amount and timing of cash flows;
- prepayment and extension terms; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse loans).

In general, the loan contracts stipulate that in case of default and collateral repossession the claim is not limited to the collateral repossession and if the collateral value does not cover the remaining debt, additional resources can still be claimed from the borrower to compensate for credit risk losses. Accordingly, this aspect

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28. Significant accounting policies (Continued)

does not create obstacles to passing SPPI test. However, in some cases, loans made by the Company that are secured by collateral of the borrower limit the Company's claim to cash flows of the underlying collateral (non-recourse loans). The Company applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Company typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the underlying loan;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- the Company's risk of loss on the asset relative to a full-recourse loan; and
- whether the Company will benefit from any upside from the underlying assets.

According to the judgement made the non-recourse loans that are secured by collateral of the borrower meet the SPPI criterion.

Reclassification of financial assets

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line and changes its business model for managing financial assets.

Financial liabilities are never reclassified.

Derecognition of financial assets and finance lease receivables

Derecognition provisions below apply to all financial assets measured at amortized cost and lease receivables.

Derecognition due to substantial modification of terms and conditions

The Company derecognizes a loan to a customer or a finance lease receivable when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan or lease, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans or lease receivables are classified as Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be purchased or originated credit impaired (POCI).

When assessing whether or not to derecognize a financial asset or a finance lease receivable, the Company evaluates whether the cash flows of the modified asset are substantially different and the Company considers the following qualitative factors:

- Change in currency of the loan/finance lease receivable
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion for financial asset
- Whether legal obligations have been extinguished.
- Furthermore, for loans to customers and finance lease receivables the Company specifically considers the purpose of the modification for increase in lease term. It is evaluated whether the modification was entered for commercial reasons upon a customer initiative or for credit restructuring reasons. Management has performed analysis of the changes being made due to business reasons and evaluated that changes due to business reasons resulted in a substantial modification of terms and conditions. This is in line with the objective of this modification that is to originate a new asset with substantially different terms. If the DPD (days past due) of the counterparty immediately prior the modification is less than 5 DPDs and the characteristics of the financial asset are substantially modified (e.g. on average financial asset term increases for several years substantially changing the term structure of the asset), the respective modification is considered to occur for a commercial reasons and results in derecognition of the initial finance lease/loan receivable.

Other modifications to the agreement terms are treated as modifications that do not result in derecognition (see section on Modifications below).

28. Significant accounting policies (Continued)*Derecognition other than for substantial modification*

A financial asset or finance lease receivable (or, where applicable, a part of a financial asset or finance lease receivable or part of the Company's similar financial assets or finance lease receivables) is derecognized when the rights to receive cash flows from the financial asset or finance lease receivable have expired. The Company also derecognizes the financial asset or finance lease receivable if it has both transferred the financial asset or finance lease receivable and the transfer qualifies for derecognition.

The Company has transferred the financial asset or finance lease receivable if the Company has transferred its contractual rights to receive cash flows from the financial asset or finance lease receivable.

The Company has transferred the asset if, and only if, either:

- the Company has transferred its contractual rights to receive cash flows from the asset or
- It retains the rights to the cash flows but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions when the Company retains the contractual rights to receive cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates;
- The Company cannot sell or pledge the original asset other than as security to the eventual recipients for the obligation to pay them cash flows;
- The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.
- A transfer only qualifies for derecognition if either:
 - The Company has transferred substantially all the risks and rewards of the asset, or
 - The Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Modifications

The Company sometimes makes modifications to the original terms of loans/lease as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a lease/loan restructured when such modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include default or DPDs prior to the modifications. Such modifications may involve extending the payment arrangements and the agreement of new loan conditions.

If the modification does not result in cash flows that are substantially different, as set out above, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss in interest revenue/expenses calculated using the effective interest method in the statements of profit or loss, to the extent that an impairment loss has not already been recorded.

If modification is performed for commercial reasons, then it is considered to result in derecognition of the initial lease/loan receivable. Such modifications include increase in the lease amount and increase in lease term, which are agreed upon with customers for commercial reasons (i.e., customers and the Company are both interested in substantially modifying the scope of the lease/loan transaction). Whenever such an agreement to modify is reached the old agreement and respective receivable is derecognized.

28. Significant accounting policies (Continued)*Treatment of non-substantial modifications*

If expectations of fixed rate financial assets' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset on the statement of financial position with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. If modification of a financial asset or liability measured at amortized cost does not result in the derecognition a modification gain/loss is calculated. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Changes in the contractual cash flows of the asset are recognized in statement of profit or loss and any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining term of the modified instrument. Therefore, the original EIR determined at initial recognition is revised on modification to reflect any costs or fees incurred.

Financial liabilities*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL or other financial liabilities that are measured at amortized cost. All financial liabilities are recognized initially at fair value plus, for an item not at FVTPL, directly attributable transaction costs.

The Company's financial liabilities include trade and other payables and loans and borrowings, including funding attracted through peer-to-peer platforms.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

A financial liability is classified at FVTPL if it is classified as held for trading, it is a derivative or it is designated as such upon initial recognition. Net gains or losses, including any interest expense, on liabilities held at FVTPL are recognized in the statement of profit or loss.

The Company has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized; interest expense is recognized through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Modification of financial liabilities

For financial liabilities, the Company considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. If the modification is substantial, then a derecognition gain or loss is recorded on derecognition. If the modification does not result in cash flows that are substantially different the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss.

28. Significant accounting policies (Continued)*Treatment of non-substantial modifications*

If expectations of fixed rate financial liabilities' cash flows are revised, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial liability on the statement of financial position with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

The carrying amount of the financial liability is adjusted if the Company revises its estimates of payments or receipts. If modification of a financial liability measured at amortized cost does not result in the derecognition a modification gain/loss is calculated. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Changes in the contractual cash flows of the asset are recognized in statement of profit or loss and any costs or fees incurred adjust the carrying amount of the modified financial asset or liability and are amortized over the remaining term of the modified instrument. Therefore, the original EIR determined at initial recognition is revised on modification to reflect any costs or fees incurred.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

The Company considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent.

(j) Financial guarantees

Where a contract meets the definition of financial guarantee contract the Company, as an issuer, applies specific accounting and measurement requirements of IFRS 9. These IFRS 9 measurement requirements are applied for all guarantee contracts, including guarantees issued between entities under common control, as well as guarantees issued by a subsidiary on behalf of the parent. If a company gives a guarantee on behalf of an entity under common control, a respective provision is recognized in the financial statements. Where transaction is driven by the Company's shareholders in their capacity as owners, the Company treats such transactions as an increase in provisions for financial guarantees and an equal and opposite decrease in equity (as a distribution of equity). Distributions of equity under financial guarantees are recognized in other reserves.

Financial guarantees are initially recognized in at fair value. Subsequently, unless the financial guarantee contract is designated at inception as at fair value through comprehensive income, Company's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortisation recognized in the statement of profit or loss and other comprehensive income, and ECL provision determined in accordance with IFRS 9. Amortisation is recognized in the statement of profit or loss and other comprehensive income under net other operating income on a straight-line basis over the term of guarantee.

Financial guarantees are derecognized if the terms of the guarantee are substantially changed. Changes in guarantee limit are treated as a derecognition. In such cases the original guarantee is derecognized, and a new guarantee is recognized at fair value. Change in the fair value is recognized as a decrease or increase in other reserves. Other reserves are transferred to retained earnings upon extinguishment of liabilities under the financial guarantee.

(k) Charter capital

Charter capital is classified as equity.

28. Significant accounting policies (Continued)**(l) Impairment****(i) Non-derivative financial assets**

The Company recognizes the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL and finance lease receivables (as due to lease contract specifics lease receivable does not contain any unguaranteed residual value, IFRS 9 provisions apply to full finance lease receivable balance). In this section all referred to as 'financial instruments'.

If there has been no significant increase in credit risk since origination, the ECL allowance is based on the 12 months' expected credit loss (12mECL).

If there has been a significant increase in credit risk since initial recognition, the ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Impairment of finance lease receivables and loans and advances to customers***Defining credit rating***

Company's core business assets - financial lease receivables and loans and advances to customers - are of retail nature, therefore are grouped per products (finance lease receivables and loans and advances to customers) for a collective ECL calculation that is modelled based on DPD (days past due) classification.

Specifically, the Company analyzes its portfolio of finance lease receivables and loans and advances to customers by segregating receivables in categories according to each receivables' days past due metrics and presence of underlying collateral.

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition.

The Company segregates finance lease receivables and loans and advances to customers in the following categories:

Finance lease receivables (lease):

- 1) Not past due
- 2) Days past due up to 30 days
- 3) Days past due 31 up to 60 days
- 4) Days past due over 60 days
- 5) unsecured (general definition: days past due over 90 or collateral is not available, i.e. lost or sold).

Loans and advances to customers (loan):

- 1) Not past due
- 2) Days past due up to 30 days
- 3) Days past due 31 up to 60 days
- 4) Days past due over 60 days
- 5) unsecured (general definition: days past due over 90 or collateral is not available, i.e. lost or sold)

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For the year ended 31 December 2022

*(In Georgian Lari)***28. Significant accounting policies (Continued)**

Based on the above process, the Company groups its leases and loans into Stage 1, Stage 2, and Stage 3, as described below:

- Stage 1: When loans/leases are first recognized, the Company recognizes an allowance based on 12mECLs. The Company considers leases that are current or with DPD up to 30 as Stage 1.

A healing period of 1 month is applied before an exposure previously classified as Stage 2 can be transferred to Stage 1 and such an exposure must meet the general Stage 1 DPD criteria above. Exposures are classified out of Stage 1 if they no longer meet the criteria above.

- Stage 2: When a loan/lease has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The Company generally considers leases that have a status of 31-60 DPD to be Stage 2 loans. A loan is considered Stage 2 if DPD is in range of 30 to 60 days. Exposures remain in Stage 2 for a healing period of 1 month, even if they otherwise would meet Stage 1 criteria above during this period.
- Stage 3: Leases and loans considered credit-impaired and at default. The Company records an allowance for the LTECLs. The Company considers a finance lease agreement defaulted and therefore Stage 3 in all cases when the borrower becomes 60 DPD on its contractual payments or the lease agreement is terminated. The Company considers a loan agreement defaulted and therefore Stage 3 in all cases when the borrower becomes 60 days past due on its contractual payments. Exposures remain in Stage 3 for a healing period of 2 months, even if they otherwise would meet Stage 2 criteria above during this period. For immature countries a 1 month healing period is applied to transfer the lease/ loan to Stage 2 due to the lower threshold of DPDs used initially to transfer such exposures in Stage 2.

Due to the nature of credit exposures of the Company (portfolios of rather homogenous and individually insignificant finance lease receivables and loans and advances to customers), qualitative assessment of whether a customer is in default is not performed for these exposures and primary reliance is placed on the above criteria.

The calculation of ECLs

The Company calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to the Company in accordance with the contract and the cash flows that the Company expects to receive.

Key elements of the model are as follows:

- PD: the Probability of Default is an estimate of the likelihood of default over a 12 month or lifetime horizon (time horizon depends on ECL type - i.e. 12mECL or LTECL);
- the Default distribution vector (DDV) is the estimate of the time to default, more specifically it provides distribution of PD over the course of a 12 month or lifetime horizon;
- EAD: the Exposure at Default is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments, whether scheduled by contract or otherwise;
- LGD: the Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the cash flows due at the moment of default and those that the lender would expect to receive, including from the realization of any collateral and deducting expenses related to cash collections or collateral realization processes. It is usually expressed as a percentage of the defaulted balance;
- lifetime period is estimated as average remaining contractual term of respective portfolio.

The Company employs multiplication model across all Stages for the ECL calculation:

$$ECL = EAD * PD * LGD * [DDV]$$

Given that DDV is a multidimensional vector (12 or 13 dimensions) it is aggregated into one value before multiplication - [DDV]. DDV aggregated value is obtained as follows:

- each value of the DDV is multiplied with discount factor;
- discount factor is calculated in a regular way (e.g. NPV formula), where discount is calculated on EIR of the portfolio and number of periods corresponds to the dimension of the respective DDV value;

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28. Significant accounting policies (Continued)

- [DDV] is the sum of all respective multiplications of DDV values with respective discount factors.

Depending on the Stage the following specifics are applied to the general ECL model:

- Stage 1: The 12mECL is calculated. The Company calculates the 12mECL allowance using 12 months PDs and DDV over the 12-month horizon. These 12-month default probabilities are applied to an estimated EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR using DDV, in this way incorporating time to default into model.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are like those explained above, but PDs and DDV are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR using DDV.
- Stage 3: For loans considered credit-impaired, the Company recognizes the LTECLs for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

ECL on restructured and modified loans

Modifications performed to customers that serve to renegotiate terms of an agreement that was previously in default result in continued Stage 3 treatment during the one month healing period followed by 2 months of healing period in Stage 2.

In case of modification for credit reasons prior to default (generally term extension), exposure is moved to Stage 2 for a healing period of 2 months. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. Such items will be classified as Stage 2 assets for a healing period of 2 months reflective of the increase from initial credit risk.

Write-off of unrecoverable debts

The Company considers any kind of receivable completely unrecoverable and writes off the receivable from balance sheet entirely if all legal actions have been performed to recover the receivable and the Company has no reasonable expectations of recovering the exposure.

Impairment of financial assets other than lease receivables and loans and advances to customers

Further financial assets where the Company calculates ECL on an individual basis or collective basis are:

- Other receivables
- Cash and cash equivalents

Financial assets are aggregated in categories considering the similarities of key risk characteristics and nature of each of these.

For other receivables the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The ECL recorded is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For cash and cash equivalents default is considered as soon as balances are not cleared beyond conventional banking settlement timeline, ie., a few days. Therefore, transition is straight from Stage 1 to Stage 3 given the low number of days that it would take the exposure to reach Stage 3 classification, meaning default. For cash and cash equivalents no Stage 2 is applied given that any past due days would result in default.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit ("CGU").

28. Significant accounting policies (Continued)

The Company's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(n) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

(i) As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise fixed payments, including in-substance fixed payments.

28. Significant accounting policies (Continued)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

A lease term reflects the Company's reasonable estimate of the period during which the underlying asset will be used. In determining the lease term the Company bases its judgement on the broader economics of the contract and the underlying asset, rather than the contractual terms only and allows factors like economic penalties, legislative approach to renewal of the lease, forthcoming changes in regulation and the future business plans of the Company to be effectively captured in the estimate of the lease term.

(ii) As a lessor

Whilst financial lease receivables that represent financial instruments and to which IFRS 16 applies are within the scope of IAS 32 and IFRS 7, they are only within the scope of IFRS 9 to the extent that they are (1) subject to the derecognition provisions, (2) 'expected credit loss' requirements, (3) the relevant provisions that apply to derivatives embedded within leases, and (4) relate to sale and leaseback transactions.

The Company is engaged in financial lease transactions by selling vehicles to its customers through financial lease contracts. The Company earns its profits predominantly from finance income over the lease term and not from initial selling profit.

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As of this date:

- a lease is classified as a finance lease; and
- the amounts to be recognized at the commencement of the lease term are determined.

The commencement of the lease is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

A lease is classified as a finance lease at the inception of the lease if it transfers substantially all the risks and rewards incidental to ownership. The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As of this date:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset, even if title is not transferred;
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

Further indicators that individually or in combination would also lead to a lease being classified as a finance lease are:

- the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee.

28. Significant accounting policies (Continued)*Initial measurement*

At lease commencement, the Company accounts for a finance lease, as follows:

- derecognizes the carrying amount of the underlying asset; and
- recognizes the net investment in the lease.

Upon commencement of finance lease, the Company records the net investment in leases, which consists of the sum of the minimum lease payments receivable by a lessor under a finance lease, discounted at the interest rate implicit in the lease. The contracts with the customers stipulate that the title to the lease object passes to the lessee at the end of the lease term; hence, no unguaranteed residual value accrues to the lessor. The difference between the gross investment and the net investment is recorded as unearned finance lease income. Initial direct costs, such as client commissions and commissions paid by the Company to car dealers, are included in the initial measurement of the lease receivables.

Based on contractual provisions, prepayments and other payments received from customers are normally recorded in statement of financial position upon receipt and settled against respective client's finance lease receivables agreement at the moment of issuing next monthly invoice according to the agreement schedule.

Subsequent measurement

Finance lease income consists of the amortization of unearned finance lease income. Finance lease income is recognized based on a pattern reflecting a constant periodic rate of return on the net investment according to effective interest rate in respect of the finance lease. Company applies the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income.

The Company recognizes income from variable payments that are not included in the net investment in the lease (e.g. performance based variable payments, such as penalties or debt collection income) separately in the period in which the income is earned. The lease term does not reflect the lessee exercising an option to terminate the lease due to high termination fees and resulting low probability of option exercise.

After lease commencement, the net investment in a lease is not remeasured unless the lease is modified, and the modified lease is not accounted for as a separate contract or the lease term is revised when there is a change in the non-cancellable period of the lease.

The Company applies derecognition and impairment requirements in IFRS 9 to the net investment in the lease.

(o) Sale and leaseback transactions

The Company also engages in financing of vehicles already owned by the customers. Under such leaseback transactions the Company purchases the underlying asset from a customer and then leases it back to the same customer. Vehicle serves as a collateral to secure all leases. The Company applies the requirements for determining when a performance obligation is satisfied in IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset. If the transfer of an asset by the seller-lessee does not satisfy the requirements of IFRS 15 to be accounted for as a sale of the asset, the buyer-lessor shall not recognise the transferred asset and shall recognise a financial asset equal to the transfer proceeds. It shall account for the financial asset as loans and advances to customers by applying IFRS 9.

The Company concluded that its sale and leaseback contract provisions are such that the transfer of asset from the seller-lessee to the Company does not satisfy and never satisfied the requirements of IFRS 15.

The Company has performed SPPI test for its sale and leaseback arrangements. Vehicle serves as a collateral to secure all of such loans. Sale and leaseback contracts include contractual terms that can vary the contractual cash flows in a way that is unrelated to a basic lending arrangement. Such cash flows arise in a case of borrowers' default and are related to repossessed car sales for which any excess gains can be retained by the Company and commissions and other fees charged to the customer that are not directly linked to outstanding principal/interest (e.g. external debt recovery costs being charged to clients with mark-up).

The Company has made relevant judgements and concluded that SPPI test is met in all above circumstances as 1) repossession commissions and fees charged by the Company are intended to cover the costs incurred by the Company in the debt servicing process under regular lending model, 2) the fact that the Company maintains proceeds from the sale of the repossessed car in excess of recovered exposure (if applicable) is not an evidence that the risk taken up by the Company is in fact the price risk of the car and not the credit risk.

28. Significant accounting policies (Continued)

The Company is able to sell the collateral and keep any surplus only on default and the occasional trivial gains from the transaction are not the purpose of the core business model (which is to earn interest income from the loan asset) and are not the focus of the business, but instead are just an instrument to minimise the credit losses, 3) termination penalties for non-recourse sale and leaseback transactions charged to the customers are also contractual elements intended to compensate for credit risk and do not result in any notable net gains to the Company.

29. New standards and interpretations not yet adopted**A) NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS EFFECTIVE FROM 1 JANUARY 2022****STANDARDS AND AMENDMENTS MANDATORILY EFFECTIVE FROM 1 JANUARY 2022**

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

Conceptual Framework for Financial Reporting (Amendments to IFRS 3). In May 2020, the IASB issued amendments to IFRS 3, which update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments introduce an exception to the general recognition requirement for liabilities and contingent liabilities acquired in a business combination that is within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFRIC 12 Service Concession arrangements.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment - Onerous Contracts - Cost of Fulfilling a Contract). In May 2020, the IASB issued amendments to IAS 37, added paragraph 68A to specify which costs an entity includes in determining the cost of fulfilling a contract for the purposes of assess whether the contract is onerous. These amendments are expected to result in more contracts being accounted for as onerous contracts because they increase the scope of costs that are included in the onerous contract assessment.

IAS 16 Property, Plant and Equipment (Amendment - Proceeds before Intended Use). In May 2020, the IASB issued amendments to IAS 16, which prohibit a company from deducting amounts received from selling items produced while the company is preparing the asset for its intended use from the cost of property, plant and equipment. Instead, a company will recognise such sales proceeds and any related costs in profit or loss rather than offset against the cost of the property.

B) NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE**STANDARDS AND AMENDMENTS MANDATORILY EFFECTIVE FROM 1 JANUARY 2023**

IFRS 17 Insurance Contracts. IFRS 17 introduces an internationally consistent approach to the accounting for insurance contracts. Prior to IFRS 17, significant diversity has existed worldwide relating to the accounting for and disclosure of insurance contracts, with IFRS 4 permitting many previous (non-IFRS) accounting approaches to continue to be followed. IFRS 17 will result in significant changes for many insurers, requiring adjustments to existing systems and processes.

The new standard takes the view that insurance contracts combine features of a financial instrument and a service contract, and that many generate cash flows that vary substantially over time. It therefore takes the approach of:

- Combining current measurement of future cash flows with recognising profit over the period that services are provided under the contract
- Presenting insurance service results (including insurance revenue) separately from insurance finance income or expenses, and
- Requiring an entity to make an accounting policy choice for each portfolio whether to recognise all insurance finance income or expenses for the reporting period in profit or loss, or to recognise some in other comprehensive income.

29. New standards and interpretations not yet adopted (Continued)

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

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

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12). In May 2021, the IASB issued amendments to IAS 12, which clarify whether the initial recognition exemption applies to certain transactions that result in both an asset and a liability being recognised simultaneously (e.g. a lease in the scope of IFRS 16). The amendments introduce an additional criterion for the initial recognition exemption under IAS 12.15, whereby the exemption does not apply to the initial recognition of an asset or liability which at the time of the transaction, gives rise to equal taxable and deductible temporary differences.

STANDARDS AND AMENDMENTS MANDATORILY EFFECTIVE FROM 1 JANUARY 2024

Lease Liability in a Sale and Leaseback (Amendment to IFRS 16). The IFRS Interpretations Committee issued an agenda decision in June 2020 - Sale and leaseback with Variable Payments. This matter was referred to the IASB for standard setting for some aspects. The IASB issued the final amendments in September 2022.

The Amendments provide a requirement for the seller-lessee to determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

IAS 1 Presentation of Financial Statements (Amendment - Classification of Liabilities as Current or Non-current, Non-current Liabilities with Covenants). The IASB issued amendments to IAS 1 - Classification of Liabilities as Current or Non-current in January 2020, which have been further amended partially by amendments Non-current Liabilities with Covenants issued in October 2022.

The amendments require that an entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement for at least twelve months after the reporting period.

If an entity's right to defer is subject to the entity complying with specified conditions, such conditions affect whether that right exists at the end of the reporting period, if the entity is required to comply with the condition on or before the end of the reporting period and not if the entity is required to comply with the conditions after the reporting period. The amendments also provide clarification on the meaning of 'settlement' for the purpose of classifying a liability as current or non-current

As a result of the COVID-19 pandemic, the Board deferred the effective date of the amendments by one year to annual reporting periods beginning on or after 1 January 2024.