JSC MICRO BANK MBC

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the year ended 31 December 2024

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of JSC MICRO BANK MBC

Opinion

We have audited the financial statements of JSC MICRO BANK MBC (the "Micro Bank"), which comprise the statement of financial position as at 31 December 2024, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Micro Bank as at 31 December 2024, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Micro Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other 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 abovementioned 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 Micro Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Micro Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 Micro Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Micro Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Micro Bank 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 (Registration # SARAS-A-735032)

For and on behalf of BDO Audit LLC

Tbilisi, Georgia

29 May 2025

STATEMENT OF FINANCIAL POSITION

As at 31 December 2024

(In thousands of Georgian Lari)

	Note	31 December 2024	31 December 2023
Assets			
Cash and cash equivalents	6	16,039	6,286
Loans to customers	7	119,464	101,144
Other assets	8	714	2,019
Deferred tax asset	9	74	-
Intangible assets		659	370
Right-of-use assets	10	5,102	4,733
Property and equipment	11	2,951	2,532
Total assets		**145,003**	**117,084**
Liabilities and equity			
Liabilities			
Subordinated borrowings and other borrowed funds	12	113,705	90,046
Lease liabilities	10	5,475	4,750
Deferred tax liability	9	-	51
Taxes payable		423	505
Other liabilities	13	2,159	1,155
Total liabilities		**121,762**	**96,507**
Equity			
Share capital	14	2,255	2,255
Share premium	14	1,136	1,136
Preference shares	14	6,989	6,989
Retained earnings		12,861	10,197
Total equity		**23,241**	**20,577**
Total liabilities and equity		**145,003**	**117,084**

The financial statements for the year ended 31 December 2024 were approved on behalf of the management on 29 May 2025 by:

General Director Gia Petriashvili

The notes on pages 9-39 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2024

(In thousands of Georgian Lari)

	Note	2024	2023
Interest income	15	30,282	25,026
Interest expense	15	(11,286)	(10,015)
Net interest income before impairment		**18,996**	**15,011**
Impairment losses on debt financial assets	7	(2,138)	(1,546)
Net interest income		**16,858**	**13,465**
Fee and commission income		2,980	3,743
Net foreign exchange (loss)/gain		(2,050)	56
Net gain/(loss) from trading in foreign currency		1,112	(2,445)
Personnel expenses		(9,383)	(7,201)
Depreciation and amortisation		(2,047)	(1,957)
Other operating expenses	16	(2,998)	(2,814)
Profit before tax		**4,472**	**2,847**
Income tax expense	9	(942)	(814)
Total comprehensive income		**3,530**	**2,033**

The notes on pages 9-39 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2024

(In thousands of Georgian Lari)

	Share capital	Share premium	Preference shares	Retained earnings	Total
At 31 December 2022	**2,255**	**1,136**	**7,464**	**9,099**	**19,954**
Transactions with owners, recorded directly in equity					
Redeemed preference shares	-	-	(475)	-	**(475)**
Fair-value adjustment of financial asset	-	-	-	(491)	**(491)**
	-	**-**	**(475)**	**(491)**	**(966)**
Total comprehensive income for the year					
Profit for the year	-	-	-	2,033	**2,033**
Dividends declared	-	-	-	(444)	**(444)**
	-	-	-	**1,589**	**1,589**
At 31 December 2023	**2,255**	**1,136**	**6,989**	**10,197**	**20,577**
Total comprehensive income for the year					
Profit for the year	-	-	-	3,530	**3,530**
Dividends declared	-	-	-	(866)	**(866)**
	-	-	-	**2,664**	**2,664**
At 31 December 2024	**2,255**	**1,136**	**6,989**	**12,861**	**23,241**

The notes on pages 9-39 form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2024

(In thousands of Georgian Lari)

	Note	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**4,472**	**2,847**
Adjustments for:			
Impairment losses on debt financial assets	7	2,138	1,546
Net change in interest accruals		636	(104)
Modification of contractual cash flows of financial assets		(94)	(149)
Depreciation and amortisation		2,047	1,957
Bonus and other accruals		1,117	468
Impairment of repossessed property		309	447
Net foreign exchange loss/(gain)		2,050	(56)
Net loss from disposal of property and equipment		-	3
		12,675	**6,959**
Changes in operating assets and liabilities:			
Loans to customers		(20,284)	(12,268)
Other assets		1,332	1,624
Tax assets/liabilities		(82)	772
Other liabilities		(468)	(38)
Cash outflow from operating activities before interest and taxation		**(6,827)**	**(2,951)**
Income tax paid		(1,067)	(626)
Interest paid on lease liabilities		(417)	(385)
Net cash outflow from operating activities		**(8,311)**	**(3,962)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment		(747)	(336)
Purchases of intangible assets		(423)	(90)
Net cash outflow from investing activities		**(1,170)**	**(426)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Receipts of borrowed funds	12	203,060	109,405
Repayment of borrowed funds	12	(181,804)	(103,579)
Repurchase of preference shares		-	(475)
Lease liabilities paid		(1,231)	(1,043)
Dividends paid		(866)	(444)
Net cash inflow from financing activities		**19,159**	**3,864**
Net increase/(decrease) in cash and cash equivalents		**9,678**	**(524)**
Cash and cash equivalents at the beginning of the period	6	6,286	6,778
Effect of changes in exchange rates on cash and cash equivalents		75	32
Cash and cash equivalents at the end of the year	6	**16,039**	**6,286**

Interest received by the Micro Bank during the year ended 31 December 2024 and 2023 amounted to GEL27,933 thousand and GEL24,106 thousand, respectively.

Interest paid by the Micro Bank during the year ended 31 December 2024 and 2023 amounted to GEL10,520 thousand and GEL9,600 thousand, respectively.

1. GENERAL INFORMATION

MICRO BANK

JSC Micro Bank MBC, previously known as JSC Micro Finance Organisation Micro Business Capital (the 'MBC' or 'Micro Bank') was established in Georgia on 2012 year. Its principal activities are credit operations, cash operations, and foreign exchange transactions. The Micro Bank is regulated by the National Bank of Georgia (the "NBG"; the central bank of Georgia) and conducts the business under license number #472. The Micro Bank's identification number is 404967078.

On 5 December 2024, MBC received a Micro Bank license from the National Bank of Georgia, marking the beginning of a new phase in its development. Following the licensing, MBC's loan limit increases from 100,000 GEL to 1 million GEL. In addition, the Micro Bank is now authorized to attract deposits, open current accounts, and offer other related services.

The Micro Bank aims to provide customer-tailored and accessible financial services to micro, small and medium businesses and farmers, increase availability of funds and loan products, maintain long-term and transparent relations with customers. The Micro Bank, as a socially responsible financial institution, aims to contribute to the sustainable economic growth of Georgia.

The Micro Bank's highest management body is the General Shareholders' Meeting. Micro Bank's activities are supervised by Supervisory Board, whose members are elected by General Shareholders' Meeting. The Micro Bank's daily activities are carried out by the Board of Directors, who are elected by the Supervisory Board.

The Micro Bank is wholly owned by members of the Shareholder Group. There is no ultimate controlling party of the Micro Bank as at 31 December 2024 and 2023. Detailed information is disclosed in Note 14.

The Micro Bank has 17 branches. The average number of Micro Bank employees for the year ended 31 December 2024 equalled to 265 individuals of which: top management - 7 employees, mid-level management - 36 employees and other staff - 221 employees. All employees held full-time positions except 2 individuals. The Micro Bank's head office is located at 68 Queen Ketevan Avenue, Tbilisi, Georgia. General Director of the Micro Bank is Mr. Gia Petriashvili.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

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

The Micro Bank maintains its records and prepares financial statements in Georgian Lari (GEL), which is also the Micro Bank's presentation currency. Amounts in the financial statements are rounded in thousands, unless otherwise stated. The reporting period for the Micro Bank is the calendar year from January 1 to December 31.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Micro Bank's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 4. The material accounting policies adopted in the preparation of the financial statements are set in the Note 3.

BASIS OF MEASUREMENT

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss are stated at fair value.

GOING CONCERN

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

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

A) Standards and Amendments Effective from 1 January 2024

Supplier Finance Arrangements (Amendment to IAS 7 and IFRS 7). The IASB undertook a narrow-scope standard setting, leading to the Amendments. The Amendments require entities to provide certain specific disclosures (qualitative and quantitative) related to supplier finance arrangements. The Amendments also provide guidance on characteristics of supplier finance arrangements.

Lease Liability in a Sale and Leaseback (Amendment to IFRS 16). The 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.

Classification of Liabilities as Current or Non-Current (Amendment to IAS 1). 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.

Noncurrent Liabilities with Covenants (Amendment to IAS 1). The amendment requires, 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.

B) New Standards and Amendments Not Yet Effective

Standards and Amendments Mandatorily Effective from 1 January 2025

Lack of Exchangeability (Amendment to IAS 21). The Amendments introduce requirements to assess when a currency is exchangeable into another currency and when it is not. The Amendments require an entity to estimate the spot exchange rate when it concludes that a currency is not exchangeable into another currency.

Standards and Amendments Mandatorily Effective from 1 January 2026

Amendments to the Classification and Measurement of financial Instruments (Amendments to IFRS 9 and IFRS 7). The Amendments modify the following requirements in IFRS 9 and IFRS 7:

<u>**Derecognition of financial liabilities**</u>

- Derecognition of financial liabilities settled through electronic transfers

<u>**Classification of financial assets**</u>

- Elements of interest in a basic lending arrangement (the solely payments of principle and interest assessment – 'SPPI test')
- Contractual terms that change the timing or amount of contractual cash flows
- Financial assets with non-recourse features
- Investments in contractually linked instruments

<u>**Disclosures**</u>

- Investments in equity instruments designated at fair value through other comprehensive income
- Contractual terms that could change the timing or amount of contractual cash flows.

Annual Improvements to IFRS Accounting Standards.

Annual improvements are limited to changes that either clarify the wording in an IFRS Accounting Standard, or correct relatively minor unintended consequences, oversights or conflicts between requirements of the Accounting Standards.

- Minor clarifications and corrections across IFRS 1, IFRS 7, IFRS 9, IFRS 10, and IAS 7 (e.g., hedge accounting, lease derecognition).

Contracts Referencing Nature dependent Electricity (previously Power Purchase Agreements) (Amendments to IFRS 9 and IFRS 7). The amendments include:

- Clarifying the application of the 'own-use' requirements;
- Permitting hedge accounting if these contracts are used as hedging instruments; and
- Adding new disclosure requirements to enable investors to understand the effect of these contracts on a company's financial performance and cash flows.

Standards and Amendments Mandatorily Effective from 1 January 2027

IFRS 18 Presentation and Disclosure in Financial Statements. IFRS 18 sets out significant new requirements for how financial statements are presented, with particular focus on:

- The statement of profit or loss, including requirements for mandatory sub-totals to be presented.
- Aggregation and disaggregation of information, including the introduction of overall principles for how information should be aggregated and disaggregated in financial statements.
- Disclosures related to management-defined performance measures (MPMs), which are measures of financial performance based on a total or sub-total required by IFRS Accounting Standards.

IFRS 19 Subsidiaries without Public Accountability: Disclosures. On 9 May 2024, the International Accounting Standards Board (IASB) issued IFRS 19, which allows subsidiaries to use IFRS with reduced disclosures while applying the recognition, measurement and presentation requirements in IFRS Accounting Standards. The eligibility criteria for an entity to apply IFRS 19 are:

- The entity is a subsidiary;
- The entity does not have public accountability; and
- The entity has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS

Initial recognition

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Micro Bank accounts for such difference as follows:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Micro Bank recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Micro Bank recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognised.

FINANCIAL ASSETS

Classification and subsequent measurement

On initial recognition, a financial asset is classified into one of the following measurement categories: amortised cost; fair value through other comprehensive income (FVOCI); or fair value through profit or loss (FVTPL).

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

Financial assets at fair value through other comprehensive income

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

Financial assets at fair value through profit or loss

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

The all of Micro Bank's financial assets are measured at amortised cost, except derivative financial assets.

Business model assessment

There are three business models available under IFRS 9:

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

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

The Micro Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Micro Bank's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Micro Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Solely Payments of Principal and Interest (SPPI)

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

individual instrument basis.

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

arrangement.

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

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

Derecognition of financial assets

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

- The rights to receive cash flows from the asset have expired, Or
- The Micro Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Micro Bank has transferred substantially all the risks and rewards of the asset, or (b) the Micro Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Micro Bank changes its business model for managing financial assets.

IMPAIRMENT OF FINANCIAL ASSETS

Changes to the impairment estimation

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

IFRS 9 requires the Micro Bank to record ECL on all of its debt financial assets at amortised cost or FVOCI. The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

(In thousands of Georgian Lari)

Under IFRS 9, the Micro Bank first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

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

Three stage approach

IFRS 9 introduces a three-stage approach to impairment for Financial Instruments that are performing at the date of origination or purchase. This approach is summarised as follows:

Stage 1: The Micro Bank recognizes a credit Expected credit losses at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition. For those financial assets with a remaining maturity of less than 12 months, a PD is used that corresponds to the remaining maturity.

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

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

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

Considering overdue days, the distribution of loans between three stages can be presented as follows:

Collateral	Stage 1	Stage 2	Stage 3
Real estate	0-30	31-90	>90
Movable property	0-30	31-90	>90
Third party personal guarantees	0-30	31-90	>90
Unsecured	0-30	31-90	>90

The Micro Bank automatically classified issued new loans into Stage 1. The loan will be transferred on the stage 2 if any of below-mentioned significant increase in credit risks trigger events occur:

a. Loan being past due for more than 30 days;

b. Restructuring of exposures;

c. Loss of the job by the borrower;

d. Borrower is unfit for work;

e. Fraud in the borrower's business (for the business loans);

f. Sale of crucial part of the business or property which is necessary for the entity's profit-making day to day activities (for business borrowers);

g. Deterioration of the macroeconomic outlook relevant to a particular borrower or a group of borrowers;

h. Deterioration of the regulatory, political, and technological outlook that relevant to a particular borrower or to a group of borrowers;

i. Adverse changes in the sector or industry conditions in which the borrower operates.

The loan will be transferred from Stage 2 to Stage 1 if:

a. The borrower pays the loan according to the loan schedule for 6 months after the Stage 2 trigger event occurrence;

b. Improvement of the circumstances due to which loan was transferred on Stage 2;

c. Restructured loans are never moved back to Stage 1;

Defaulted loans are transferred on the Stage 3 at the moment of the default. Loans which are on the Stage 3 are not transferred on the other stage.

Definition of default

The Micro Bank considers loan to be in default if any of the following criteria are met:

- Loans being past due for more than 90 days; Death of the borrower;
- A default, initiation of bankruptcy proceedings (for business borrowers); or
- Fraud from Borrower side toward communication with MFO such as: providing misleading information on financial results; Collaboration of MBC staff member with the borrower for the purpose of manipulation of desired results
- Force majeure

The definition of default is in line with relevant regulations taking into account the 90 days past due cap presumption IFRS 9. The loans for which the Micro Bank recognizes default are credit-impaired loans.

Significant increase in credit risk

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

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

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

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

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes more than 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in Expected credit losses from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

Forward-looking information

Under IFRS 9, the allowance for credit losses is based on reasonable and supportable forward-looking information obtainable without undue cost or effort, which takes into consideration past events, current conditions and forecasts of future economic conditions.

The Micro Bank incorporates forward-looking information into its measurement of ECLs.

The Micro Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and probabilities of default. This key driver is GDP forecasts. Predicted relationships between the key indicator and default and loss rates of loan portfolios have been developed based on analysing historical data over the past 5 years.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

The Micro Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Micro Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. Restructured loans are transferred to stage 2 and lifetime ECL is applied.

The revised terms usually include extending the maturity and changing the timing of interest payments.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Measurement of ECLs

The key inputs into the measurement of ECLs are the term structures of the following variables:

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

These parameters are derived from internally developed statistical models and other historical data that leverage regulatory models. They are adjusted to reflect forward-looking information as described below. These variables (excluding EAD) are calculated annually. EAD is renewed whenever the loan impairment allowance is calculated.

Probability of default (PD)

PD estimates are estimates at a certain date, which are calculated based on statistical rating models.

If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

PDs are calculated based on three-year average. This rate is calculated separately for all segments, loans are grouped into segments according to the types of loan collateral. The PD is calculated by matching the migration matrices to the loan portfolio, which shows the probability of the loan portfolio shifting between the impairment stages.

Loss given default (LGD)

LGD is defined as the likely loss in case of a counterparty default. The Micro Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD model considers cash recoveries only. LGD is calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

Exposure at default (EAD)

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

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- product type;
- collateral type;

The groupings are subject to regular reviews to ensure that exposures within a particular group remain appropriately homogeneous.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, and all bank placements or receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents.

FINANCIAL LIABILITIES

The Micro Bank classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Micro Bank has classified borrowings and other short-term monetary liabilities within "Other financial liabilities" category. All of Micro Bank's derivative financial liabilities are measured at FVTPL.

Other financial liabilities include the following items:.

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

Offsetting financial assets and financial liabilities

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

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

Derecognition of financial liabilities

The Micro Bank derecognises financial liabilities when, and only when, the Micro Bank's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

FAIR VALUE HIERARCHY

IFRS 13 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.

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

The estimated fair values of all financial instruments as at 31 December 2024 and 31 December 2023 approximate their carrying amounts.

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 realisable in an immediate sale of the assets or transfer of liabilities.

RECOGNITION OF INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in profit or loss using the effective interest method. Other fees and commissions for activities not related to the internal rate of return on loans, advances and other receivables are not settled at effective interest rate but spread over time at the straight-line method or recognised on a one-off basis at the moment of their receipt depending on the nature of such fees and commissions.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Other income and expenses are recognized in accordance with the accrual method, which is in line with the volume of services issued or received.

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

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost.

Interest expense presented in the statement of profit or loss and other comprehensive income includes interest on financial liabilities measured at amortised cost.

Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

A contract with a customer that results in a recognised financial instrument in the Micro Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Micro Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

SALARIES AND OTHER EMPLOYEE BENEFITS

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

RECOGNITION OF OPERATING AND ADMINISTRATIVE EXPENSES

Expenses are recognised in the statement of comprehensive income if there arises any decrease of future economic profit related to the decrease of an asset or increase of a liability that can be reliably assessed.

Expenses are recognized in the statement of comprehensive income immediately, if the expenses do not result in future economic profit anymore, or if future economic profit do not meet or stop to meet the requirements of recognition as an asset in the balance sheet.

LEASES

The Micro Bank as lessee

Identifying the lease

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

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

Initial recognition

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

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

Leases are recognised on the Micro Bank's balance sheet as follows:

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

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

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

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

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

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

Subsequent measurement

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

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

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

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

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

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

Determination of lease term

The lease term is defined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (including the renewal option implied through customary business practices) if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised. The Micro Bank's lease terms contractually are determined to be 5 to 10 years.

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

Determination of incremental borrowing rate (IBR)

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

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

Determination of lease payments

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

Contract terms are negotiated on an individual basis with lessors; Results of these negotiations have material effect on financial statements as the lease terms, currencies and payment methods (fixed or variable) are determined.

Short-term leases and leases of low-value assets

The Micro Bank applies the recognition exemption for short-term leases (i.e. lease with a lease term of 12 months or less from the commencement date) and leases of low-value assets. Associated lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

TAXATION

The tax expense for the year comprises of current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in Georgia and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

In December 2022 the Parliament of Georgia adopted changes which will come into effect on 1 January 2023. Income tax on companies of Georgia's financial sector will be set at 20 percent, with taxation of MFOs and other entities no longer set to be switched to the Estonian tax model.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rate (and laws) that has been enacted or substantially enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

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

PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

All property, equipment and intangible assets are stated at historical cost less depreciation (amortisation) and recognized impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

	Useful life (years)
Buildings	30 - 40
Furniture and equipment	3 – 7

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Leasehold improvements are depreciated according to lease agreement. The intangible assets with definite useful lives are amortised on a straight-line basis over expected useful lives.

IMPAIRMENT OF NON-FINANCIAL ASSETS OTHER THAN INVENTORIES

Non-financial assets other than inventories are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised in statement of comprehensive income for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

SHARE CAPITAL AND DIVIDENDS

Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Difference between nominal value and market price is recognized as a share premium.

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared. Dividends in relation to preference shares are reflected as an appropriation of retained earnings in the period when they are approved by Annual General Meeting in each given year.

Preference share capital that is non-redeemable with discretionary dividends is classified as equity according to IAS 32.

FOREIGN CURRENCY TRANSACTIONS

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

Monetary assets and liabilities are translated into the Micro Bank’s functional currency at the official exchange rate of the National Bank of Georgia.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Micro Bank’s functional currency at year-end official exchange rates are recognised in the statement of comprehensive income. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Table below presents the closing exchange rates by the National Bank of Georgia:

	USD / GEL	EUR / GEL
Exchange rate as at 31 December 2024	2.8068	2.9306
Exchange rate as at 31 December 2023	2.6894	2.9753

EVENTS AFTER THE REPORTING PERIOD

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Micro Bank makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements and estimates related to ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, development of models and preparation of data inputs. Expert management judgement is also an essential part of estimating expected credit losses.

Management considers management judgements and estimates in calculating ECL as follows:

Judgements used to define criteria used in definition of default. The Micro Bank defines default using both quantitative and qualitative criteria. Borrower is classified as defaulted if:

- any amounts of contractual repayments are past due more than 90 days; or
- factors indicating the borrower's unlikeliness-to-pay.

Unlikeliness to repay is qualitative and quantitative criteria based on clients monitoring/financial stability.

In addition, default exit criteria are defined using judgement as well as whether default should be applied on a borrower or exposure level. For more details on the methodology please see Note 3.

Judgements used to define criteria for assessing, if there has been a significant increase in credit risk (SICR) which is defined using both quantitative and qualitative criteria.

Qualitative factors usually include judgements around delinquency period of more than 30 days on contractual repayments; exposure is restructured, but is not defaulted.

The Micro Bank evaluates the change in the probability of default parameter for each specific exposure on a quantitative basis, comparing it to a predefined threshold since its initial recognition. When the absolute relative change in the probability of default surpasses the specified threshold, it is considered a Significant Increase in Credit Risk (SICR), leading to the transfer of the exposure to Stage 2.

Judgements used for calculation of credit risk parameters namely probability of default (PD) and loss given default (LGD). The judgements include and are not limited by:

(i) definition of the segmentation for risk parameters estimation purposes,

(ii) time since default date after which no material recoveries are expected,

The table below describes sensitivity on 10% increase of PD and LGD estimates. For sensitivity calculation purposes, the staging has been maintained unchanged:

In thousands of GEL	31 December 2024	31 December 2023
10% increase (decrease) in PD estimates	Increase (decrease) credit loss allowance on loans and advances by GEL 205 thousand (GEL 205 thousand).	Increase (decrease) credit loss allowance on loans and advances by GEL 165 thousand (GEL 165 thousand).
10% increase (decrease) in LGD estimates	Increase (decrease) credit loss allowance on loans and advances by GEL 464 thousand (GEL 497 thousand).	Increase (decrease) credit loss allowance on loans and advances by GEL 446 thousand (GEL 446 thousand).

5. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

As a financial institution, the Micro Bank is exposed to risks that arise from its use of financial instruments. This note describes the Micro Bank's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. Financial assets and financial liabilities that are liquid or have a short-term maturity is assumed that the carrying amounts approximate to their fair value.

GENERAL OBJECTIVES, POLICIES AND PROCESSES

The management has overall responsibility for the determination of the Micro Bank's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Micro Bank's finance function.

The overall objective of the management is to set polices that seek to reduce risks as far as possible without unduly affecting the Micro Bank's competitiveness and flexibility. Further details regarding these policies are set out below. Through its operations, the Micro Bank is exposed to the following financial risks:

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

CREDIT RISK

Credit risk is the risk of financial loss to the Micro Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Micro Bank has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications
- methodology for the credit assessment of borrowers
- methodology for the credit assessment of counterparties
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Loan credit applications are originated by the relevant credit officers and are then passed on to the credit committee members, according to credit policy. Credit Committee is responsible for the loan approval/rejection decision. Committee acts in line with the defined limits and standards, which are defined in credit policy and product specification. Analysis is based on a structured analysis, focusing on the customer's business and financial performance.

Credit officer is responsible for the accuracy, reliability and transparency of loan application, which includes information on client, detailed analysis of client's business and preliminary assessment of credit risks and etc. Based on certain criteria (clients' credit history, creditworthiness, financial position, business sustainability and etc) credit committee members review loan application.

The Micro Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Micro Bank. Regular monitoring of loans allows the Micro Bank to mitigate credit risks. Collateral is another tool for credit risk mitigation.

Risk Management Department performs clients individual risk assessment as well as analysis of overall portfolio quality, credit concentration and market risks. See allowance for loans customers in Note 7.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of the possible netting of assets and liabilities to reduce potential credit exposure is not significant.

(In thousands of Georgian Lari)

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	31 December 2024	31 December 2023
Cash and cash equivalents (excluding cash on hand)	11,789	1,945
Loans to customers	119,464	101,144
Other assets	81	425
	131,334	**103,514**

LIQUIDITY RISK

Liquidity risk is the risk that the Micro Bank will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/-or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The Micro Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity management policy requires:

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

The following tables show the undiscounted cash flows on financial liabilities on the basis of their earliest possible contractual maturity:

At 31 December 2024	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Non-derivative financial liabilities					
Other borrowed funds	14,425	24,371	84,888	55	**123,739**
Subordinated borrowings	106	350	6,832	-	**7,288**
Lease liabilities	464	1,297	4,651	179	**6,591**
Other financial liabilities	1,585	437	-	-	**2,022**
	16,580	**26,455**	**96,371**	**234**	**139,640**

At 31 December 2023	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Non-derivative financial liabilities					
Other borrowed funds	9,838	44,004	40,962	-	**94,804**
Subordinated borrowings	120	335	6,991	-	**7,446**
Lease liabilities	374	1,055	4,001	245	**5,675**
Other financial liabilities	882	-	-	-	**882**
	11,214	**45,394**	**51,954**	**245**	**108,807**

MARKET RISK

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market factors. Market risk arises from the Micro Bank's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates (currency risk) and interest rates (interest rate risk).

(In thousands of Georgian Lari)

- **CURRENCY RISK**

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Micro Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Micro Bank's exposure to foreign currency exchange rate risk as at 31 December 2024 is presented in the tables below:

Financial assets	**GEL**	**USD**	**EUR**	**Other Currencies**
Cash and cash equivalents	12,773	2,219	924	123
Loans to customers	118,849	615	-	-
Other financial assets	80	1	-	-
	131,702	**2,835**	**924**	**123**
Financial liabilities				
Other borrowed funds	62,693	45,418	31	-
Subordinated borrowings	-	5,563	-	-
Lease liabilities	121	5,354	-	-
Other financial liabilities	1,544	477	1	-
	64,358	**56,812**	**32**	**-**
Open balance sheet position	**67,344**	**(53,977)**	**892**	**123**
The effect of derivatives held for risk management	**(52,715)**	**53,091**	**(879)**	**-**
Net open balance sheet position	**14,629**	**(886)**	**13**	**123**

The Micro Bank's exposure to foreign currency exchange rate risk as at 31 December 2023 is presented in the tables below:

Financial assets	**GEL**	**USD**	**EUR**	**Other Currencies**
Cash and cash equivalents	3,855	683	1,151	597
Loans to customers	100,232	912	-	-
Other financial assets	350	34	31	10
	104,437	**1,629**	**1,182**	**607**
Financial liabilities				
Other borrowed funds	52,818	31,855	52	-
Subordinated borrowings	-	5,321	-	-
Lease liabilities	224	4,526	-	-
Other financial liabilities	804	78	-	-
	53,846	**41,780**	**52**	**-**
Open balance sheet position	**50,591**	**(40,151)**	**1,130**	**607**
The effect of derivatives held for risk management	**(35,559)**	**34,979**	**903**	**-**
Net open balance sheet position	**15,032**	**(5,172)**	**2,033**	**607**

The following table details the Micro Bank's sensitivity to a 20% increase and decrease in the foreign currency exchange rates against GEL and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the year for a 20% change in foreign currency rates. Impact on the statement of comprehensive income and equity based on financial instrument values can be presented as follows:

	31 December 2024			**31 December 2023**		
	(GEL / USD)	**(GEL / EUR)**	**(GEL / Other Currencies)**	**(GEL / USD)**	**(GEL / EUR)**	**(GEL / Other Currencies)**
20% increase	(177)	3	25	(1,034)	407	121
20% decrease	177	(3)	(25)	1,034	(407)	(121)

The analysis assumes that all other variables, in particular interest rates, remain constant.

(In thousands of Georgian Lari)

- INTEREST RATE RISK

Interest rate risk arises from potential changes in market interest rates that can adversely affect the fair values of the financial assets and liabilities of the Micro Bank. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

The table presents the aggregated amounts of the Micro Bank's interest-bearing financial assets and interest-bearing financial liabilities at carrying amounts:

	31 December 2024	31 December 2023
Total interest-bearing financial assets	131,253	103,089
Total interest-bearing financial liabilities	(119,180)	(94,796)
	12,073	**8,293**

MANAGEMENT OF CAPITAL

The Micro Bank's objectives when maintaining capital are:

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

The Micro Bank sets the amount of capital it requires in proportion to risk. The Micro Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

In order to maintain or adjust the capital structure, the Micro Bank may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Micro Bank is also subject to minimum capital requirements established by covenants stated in loan agreements. See detailed information in Note 17.

6. CASH AND CASH EQUIVALENTS

	31 December 2024	31 December 2023
Cash on hand	4,250	4,341
Cash at Bank	11,789	1,945
	16,039	**6,286**

Cash and cash equivalents distribution by currency is disclosed in Note 5.

7. LOANS TO CUSTOMERS

	31 December 2024	31 December 2023
Consumption*	77,958	50,332
Services	17,292	24,567
Housing*	10,223	7,934
Farming/agro-activities	9,996	9,973
Trade	7,236	10,035
Production/construction	1,728	2,778
	124,433	**105,619**
Expected credit allowance	(4,969)	(4,475)
Total loans to customers	**119,464**	**101,144**

*Consumption loans are intended to cover personal purchases and other consumer liabilities. Housing loans are loans issued for the purpose of purchase, repair and to arrange real estate.

(In thousands of Georgian Lari)

The following table provides information on the credit quality of loans to customers as at 31 December 2024:

Loans to customers	Stage 1	Stage 2	Stage 3	Total
Services				
Not overdue	14,816	234	-	**15,050**
Overdue less than 30 days	169	3	-	**172**
31 to 90 days overdue	-	181	-	**181**
91 to 180 days overdue	-	-	220	**220**
More than 180 days overdue	-	-	1,669	**1,669**
Total Services	**14,985**	**418**	**1,889**	**17,292**
Expected credit losses	(210)	(85)	(977)	**(1,272)**
Carrying amount	**14,775**	**333**	**912**	**16,020**
Consumption				
Not overdue	73,331	322	-	**73,653**
Overdue less than 30 days	1,119	108	-	**1,227**
31 to 90 days overdue	-	838	-	**838**
91 to 180 days overdue	-	-	543	**543**
More than 180 days overdue	-	-	1,697	**1,697**
Total Consumption	**74,450**	**1,268**	**2,240**	**77,958**
Expected credit losses	(1,006)	(270)	(1,314)	**(2,590)**
Carrying amount	**73,444**	**998**	**926**	**75,368**
Trade				
Not overdue	6,091	271	-	**6,362**
Overdue less than 30 days	53	15	-	**68**
31 to 90 days overdue	-	129	-	**129**
91 to 180 days overdue	-	-	20	**20**
More than 180 days overdue	-	-	657	**657**
Total Trade	**6,144**	**415**	**677**	**7,236**
Expected credit losses	(99)	(55)	(304)	**(458)**
Carrying amount	**6,045**	**360**	**373**	**6,778**
Farming/agro-activities				
Not overdue	8,761	364	-	**9,125**
Overdue less than 30 days	100	22	-	**122**
31 to 90 days overdue	-	294	-	**294**
91 to 180 days overdue	-	-	7	**7**
More than 180 days overdue	-	-	448	**448**
Total Farming/agro-activities	**8,861**	**680**	**455**	**9,996**
Expected credit losses	(144)	(75)	(268)	**(487)**
Carrying amount	**8,717**	**605**	**187**	**9,509**
Production/construction				
Not overdue	1,606	36	-	**1,642**
Overdue less than 30 days	24	-	-	**24**
31 to 90 days overdue	-	3	-	**3**
91 to 180 days overdue	-	-	6	**6**
More than 180 days overdue	-	-	53	**53**
Total Production/construction	**1,630**	**39**	**59**	**1,728**
Expected credit losses	(24)	(3)	(36)	**(63)**
Carrying amount	**1,606**	**36**	**23**	**1,665**
Housing				
Not overdue	9,990	18	-	**10,008**
Overdue less than 30 days	97	-	-	**97**
31 to 90 days overdue	-	61	-	**61**
91 to 180 days overdue	-	-	25	**25**
More than 180 days overdue	-	-	32	**32**
Total Housing	**10,087**	**79**	**57**	**10,223**
Expected credit losses	(64)	(12)	(23)	**(99)**
Carrying amount	**10,023**	**67**	**34**	**10,124**

(In thousands of Georgian Lari)

The following table provides information on the credit quality of loans to customers as at 31 December 2023:

Loans to customers	Stage 1	Stage 2	Stage 3	Total
Services				
Not overdue	21,274	178	-	**21,452**
Overdue less than 30 days	304	-	-	**304**
31 to 90 days overdue	-	296	-	**296**
91 to 180 days overdue	-	-	364	**364**
More than 180 days overdue	-	-	2,151	**2,151**
Total Services	**21,578**	**474**	**2,515**	**24,567**
Expected credit losses	(307)	(77)	(1,215)	**(1,599)**
Carrying amount	**21,271**	**397**	**1,300**	**22,968**
Consumption				
Not overdue	47,782	266	-	**48,048**
Overdue less than 30 days	486	55	-	**541**
31 to 90 days overdue	-	365	-	**365**
91 to 180 days overdue	-	-	292	**292**
More than 180 days overdue	-	-	1,086	**1,086**
Total Consumption	**48,268**	**686**	**1,378**	**50,332**
Expected credit losses	(656)	(112)	(760)	**(1,528)**
Carrying amount	**47,612**	**574**	**618**	**48,804**
Trade				
Not overdue	8,691	269	-	**8,960**
Overdue less than 30 days	78	2	-	**80**
31 to 90 days overdue	-	122	-	**122**
91 to 180 days overdue	-	-	135	**135**
More than 180 days overdue	-	-	738	**738**
Total Trade	**8,769**	**393**	**873**	**10,035**
Expected credit losses	(120)	(44)	(433)	**(597)**
Carrying amount	**8,649**	**349**	**440**	**9,438**
Farming/agro-activities				
Not overdue	8,430	284	-	**8,714**
Overdue less than 30 days	285	-	-	**285**
31 to 90 days overdue	-	317	-	**317**
91 to 180 days overdue	-	-	93	**93**
More than 180 days overdue	-	-	564	**564**
Total Farming/agro-activities	**8,715**	**601**	**657**	**9,973**
Expected credit losses	(141)	(111)	(336)	**(588)**
Carrying amount	**8,574**	**490**	**321**	**9,385**
Production/construction				
Not overdue	2,632	37	-	**2,669**
Overdue less than 30 days	6	-	-	**6**
31 to 90 days overdue	-	15	-	**15**
91 to 180 days overdue	-	-	18	**18**
More than 180 days overdue	-	-	70	**70**
Total Production/construction	**2,638**	**52**	**88**	**2,778**
Expected credit losses	(30)	(6)	(47)	**(83)**
Carrying amount	**2,608**	**46**	**41**	**2,695**
Housing				
Not overdue	7,766	35	-	**7,801**
Overdue less than 30 days	26	-	-	**26**
31 to 90 days overdue	-	-	-	**-**
91 to 180 days overdue	-	-	63	**63**
More than 180 days overdue	-	-	44	**44**
Total Housing	**7,792**	**35**	**107**	**7,934**
Expected credit losses	(43)	(1)	(36)	**(80)**
Carrying amount	**7,749**	**34**	**71**	**7,854**

(In thousands of Georgian Lari)

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security, and the Micro Bank generally requests borrowers to provide it.

Loans to customers are generally collateralized by real estate and vehicles (few amounts are collateralized by precious metals).

Weighted average loan-to-value ratio for loans collateralized with real estate at the end of 2024 was 43% (2023: 39%) and collateralized by vehicles was 56% (2023: 52%).

Loans collateralized by precious metals are collateralized by underlying precious metals. Weighted average loan-to-value ratio for loans collateralized by precious metals at the end of 2024 was 62% (2023: 85%).

Following table provides information on the collateral, securing the loan portfolio, net of impairment:

At 31 December 2024	Real estate	Vehicles	Precious metals	No collateral	Total
Services	11,785	3,288	1	946	**16,020**
Consumption	32,149	40,534	1	2,684	**75,368**
Trade	4,263	1,803	-	712	**6,778**
Farming/agro-activities	6,848	1,462	-	1,199	**9,509**
Production/construction	1,289	203	-	173	**1,665**
Housing	9,622	353	-	149	**10,124**
	65,956	**47,643**	**2**	**5,863**	**119,464**

At 31 December 2023	Real estate	Vehicles	Precious metals	No collateral	Total
Services	17,118	5,475		375	**22,968**
Consumption	20,496	27,405	11	892	**48,804**
Trade	6,516	2,621	-	301	**9,438**
Farming/agro-activities	7,154	1,796	-	435	**9,385**
Production/construction	2,178	399	-	118	**2,695**
Housing	7,558	247	-	49	**7,854**
	61,020	**37,943**	**11**	**2,170**	**101,144**

The following table shows reconciliations from the opening to the closing balances of the expected credit losses of loans to customers as at 31 December 2024:

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
At the beginning of the year	**1,297**	**351**	**2,827**	**4,475**
Transfer to Stage 1	61	(49)	(12)	**-**
Transfer to Stage 2	(28)	78	(50)	**-**
Transfer to Stage 3	(56)	(114)	170	**-**
Net remeasurement of loss allowance	(239)	103	2,398	**2,262**
New financial assets originated	1,923	-	-	**1,923**
Transfer to Stage 2	(240)	240	-	**-**
Transfer to Stage 3	(551)	-	551	**-**
Repaid loans	(620)	(109)	(1,318)	**(2,047)**
Write-offs	-	-	(1,644)	**(1,644)**
At the end of the year	**1,547**	**500**	**2,922**	**4,969**

(In thousands of Georgian Lari)

The following table shows reconciliations from the opening to the closing balances of the expected credit losses of loans to customers as at 31 December 2023:

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
At the beginning of the year	**1,233**	**300**	**1,636**	**3,169**
Transfer to Stage 1	142	(103)	(39)	**-**
Transfer to Stage 2	(21)	21	-	**-**
Transfer to Stage 3	(72)	(148)	220	**-**
Net remeasurement of loss allowance	(229)	173	1,077	**1,021**
New financial assets originated	1,115	-	-	**1,115**
Transfer to Stage 2	(116)	116	-	**-**
Transfer to Stage 3	(164)	-	164	**-**
Repaid loans	(591)	(8)	(151)	**(750)**
Write-offs	-	-	(80)	**(80)**
At the end of the year	**1,297**	**351**	**2,827**	**4,475**

Respective movements in the gross carrying amounts of loans to customers for the year ended 31 December 2024 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost				
At the beginning of the year	**97,760**	**2,241**	**5,618**	**105,619**
Transfer to Stage 1	636	(636)	-	**-**
Transfer to Stage 2	(1,549)	1,549	-	**-**
Transfer to Stage 3	(1,770)	(497)	2,267	**-**
New financial assets originated	142,870	-	-	**142,870**
Transfer to Stage 2	(803)	803	-	**-**
Transfer to Stage 3	(832)	-	832	**-**
Net changes in interest accruals	10	53	(11)	**52**
Modification of contractual cash flows of financial assets	94	-	-	**94**
Repaid loans	(120,340)	(661)	(1,439)	**(122,440)**
Write-offs	-	-	(1,812)	**(1,812)**
Foreign exchange and other movements	81	47	(78)	**50**
At the end of the year	**116,157**	**2,899**	**5,377**	**124,433**

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

	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost				
At the beginning of the year	**87,098**	**2,689**	**3,623**	**93,410**
Transfer to Stage 1	180	(183)	-	**(3)**
Transfer to Stage 2	(1,402)	1,402	-	**-**
Transfer to Stage 3	(2,191)	(1,005)	3,196	**-**
New financial assets originated	112,877	-	-	**112,877**
Transfer to Stage 2	(460)	460	-	**-**
Transfer to Stage 3	(300)	-	300	**-**
Net changes in interest accruals	(37)	34	47	**44**
Modification of contractual cash flows of financial assets	124	6	19	**149**
Repaid loans	(97,900)	(1,280)	(1,314)	**(100,494)**
Write-offs	-	-	(80)	**(80)**
Foreign exchange and other movements	(229)	118	(173)	**(284)**
At the end of the year	**97,760**	**2,241**	**5,618**	**105,619**

(In thousands of Georgian Lari)

8. OTHER ASSETS

	31 December 2024	31 December 2023
Repossessed property*	419	386
Prepayments	213	192
Financial assets at fair value though profit or loss	68	18
Receivable from related party	-	1,009
Cash collateral pledged under the credit line agreement	-	278
Other	14	136
	714	**2,019**

*Repossessed property represents non-financial assets acquired by the Micro Bank to settle overdue loans. The assets are initially recognised at fair value when acquired and included in inventories within other assets depending on their nature and the Micro Bank's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies. Inventories of repossessed property are recorded at the lower of cost or net realisable value. The Micro Bank expects to dispose these assets in the foreseeable future. Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

Foreign Currency Forward Contracts

Foreign Currency Forward Contracts are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts. In a foreign currency forward, the Micro Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency forwards are gross-settled.

The table below summarizes the undiscounted contractual amounts outstanding at 31 December 2024 and 2023 with remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts are recognized in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount	
	31 December 2024	31 December 2023
Sell GEL to Buy USD		
Less than 3 months	41,367	35,882
Between 3 and 12 months	12,230	-
Sell EUR to Buy GEL		
Less than 3 months	882	-

9. DEFERRED TAX ASSET AND LIABILITY

Temporary differences at a rate of 20% due to:	Balance at 31 December 2022	Credited (charged) to the Income Statement	Balance at 31 December 2023	Credited (charged) to the Income Statement	Balance at 31 December 2024
Loans to customers	**308**	(308)	**-**	-	**-**
Right-of-use assets	**(1,102)**	155	**(947)**	65	**(262)**
Property and equipment	**(371)**	44	**(327)**	(73)	**(1,020)**
Intangible assets	**22**	9	**31**	7	**38**
Subordinated borrowings and other borrowed funds	**128**	20	**148**	(148)	**-**
Lease liabilities	**1,070**	(120)	**950**	145	**1,095**
Other liabilities	**82**	12	**94**	129	**223**
	137	**(188)**	**(51)**	**125**	**74**

(In thousands of Georgian Lari)

Income tax expense for the years ended 31 December 2024 and 2023 comprises the following:

	2024	2023
Current income tax	(1,067)	(626)
Effect of temporary differences	125	(188)
	(942)	**(814)**

Reconciliation of the Income tax expense based on actual statutory rate is as follows:

	2024	2023
Profit before income tax	**4,472**	**2,847**
Applicable tax rate	20%	20%
Theoretical Income tax benefit	**(894)**	**(569)**
Effect of permanent differences	(48)	(245)
	(942)	**(814)**

10. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Micro Bank's lease agreements, for which right of use assets are recognised, includes leases of the head office and branches. Lease payments for these spaces are fixed over the lease term and are denominated in USD and GEL. The incremental borrowing rates for 2024 and 2023 years are in range of 6.5%-9.5% for leases denominated in USD and 12.5-15% for leases denominated in GEL.

Lease liabilities distribution by currency is disclosed in Note 5.

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

	2024	2023
At the beginning of the year	**4,733**	**5,511**
New lease contracts	847	399
Modification	913	67
Amortisation	(1,344)	(1,244)
Other movement	(47)	-
At the end of the year	**5,102**	**4,733**

Lease liabilities can be presented as follows:

	2024	2023
At the beginning of the year	**4,750**	**5,348**
New lease contracts	838	399
Interest expense	417	385
Modification	913	67
Lease payments	(1,659)	(1,428)
Foreign exchange movements	205	(21)
Other movement	11	-
At the end of the year	**5,475**	**4,750**

IBR was determined based on observable market data for a similar sector.

(In thousands of Georgian Lari)

11. PROPERTY AND EQUIPMENT

Historical cost	Land and buildings	Furniture and equipment	Leasehold improvements	Total
As at 31 December 2022	**871**	**2,461**	**1,412**	**4,744**
Additions	-	187	149	**336**
Disposals	-	(99)	(128)	**(227)**
As at 31 December 2023	**871**	**2,549**	**1,433**	**4,853**
Additions	-	687	301	**988**
Disposals	-	(105)	(49)	**(154)**
As at 31 December 2024	**871**	**3,131**	**1,685**	**5,687**
Accumulated depreciation				
As at 31 December 2022	**(76)**	**(1,393)**	**(490)**	**(1,959)**
Depreciation	(15)	(371)	(200)	**(586)**
Disposals	-	96	128	**224**
As at 31 December 2023	**(91)**	**(1,668)**	**(562)**	**(2,321)**
Depreciation	(15)	(323)	(231)	**(569)**
Disposals	-	105	49	**154**
As at 31 December 2023	**(106)**	**(1,886)**	**(744)**	**(2,736)**
Carrying amount				
As at 31 December 2023	**780**	**881**	**871**	**2,532**
As at 31 December 2024	**765**	**1,245**	**941**	**2,951**

Real estate with carrying amount of GEL543 thousand is pledged as a collateral of borrowings from local financial institutions for 2024 (2023: GEL560).

12. SUBORDINATED BORROWINGS AND OTHER BORROWED FUNDS

	31 December 2024	31 December 2023
Principal	112,495	89,128
Interest Payable	1,210	918
	113,705	**90,046**

Details regarding subordinated borrowings and other borrowed funds are given in the tables below:

	Currency	Nominal interest rate	Year of maturity	31 December 2024
Secured loans				
From local financial institutions	GEL	11%-16%	2025	20,787
Unsecured loans				
From international financial institutions	USD	6%-9%	2025-2027	41,649
From international financial institutions	GEL	15%-15%	2025-2026	5,550
Subordinated loans from related parties	USD	9%	2028	5,562
From related parties	USD	8%-11%	2025-2026	1,334
From related parties	GEL	11%-15%	2025-2026	241
Other legal entities	GEL	13%-15%	2025	1,059
Bonds	GEL	13%-15%	2026	30,041
From individuals	USD	2%-7%	2025-2026	2,436
From individuals	GEL	12%-15%	2025-2026	5,015
From individuals	EUR	3%	2025	31
				113,705

(In thousands of Georgian Lari)

	Currency	Nominal interest rate	Year of maturity	31 December 2023
Secured loans				
From local financial institutions	GEL	10%-15%	2024-2025	25,195
Unsecured loans				
From international financial institutions	USD	6%-9%	2024-2025	26,708
From international financial institutions	GEL	14%-15%	2024-2026	9,931
Subordinated loans from related parties	USD	8%-9%	2028-2029	5,321
From related parties	USD	2%-11%	2024	1,079
From related parties	GEL	13%-15%	2024	136
From related parties	EUR	3%	2024	21
Other legal entities	GEL	11%-15%	2024	631
Bonds	GEL	15%	2024	15047
From individuals	USD	2%-7%	2024-2025	4068
From individuals	GEL	14%-15%	2024-2025	1878
From individuals	EUR	3%	2024-2024	31
				90,046

On December 27, 2024, the Micro Bank issued bonds worth GEL30,000 GEL, the interest rate of which was determined from its nominal value, and amounts to 425 basis points (spread) plus TIBR3M, including taxes established by law. Interest accrual will take place on a 365 day per year basis. The accrued interest will be paid four times a year on March 27, June 27, September 27 and December 27.

Borrowings received from local financial institutions for 2024 and 2023 were secured with the Micro Bank's loan portfolio with amount of GEL14,774 thousand and GEL16,546 thousand, cash collaterals GEL0 thousand and GEL278 thousand, respectively. Borrowings secured with Micro Bank's real estate with carrying amount equalled GEL543 thousand for 2024 and GEL560 for 2023.

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

	2024	2023
At the beginning of the year	**90,046**	**84,214**
Repayment	(181,804)	(103,579)
Proceeds	203,060	109,405
Interest paid	(10,520)	(9,600)
Net Cash flows:		
Interest expense	11,003	9,630
The effect of changes in foreign exchange rates	1,920	(24)
At the end of the year	**113,705**	**90,046**

13. OTHER LIABILITIES

	31 December 2024	31 December 2023
Salaries Payable	1,117	468
Financial liabilities at fair value though profit or loss	246	219
Payables from received services	586	195
Deferred income	-	91
Other	210	182
	2,159	**1,155**

(In thousands of Georgian Lari)

14. SHARE CAPITAL AND RESERVES

As at 31 December 2024 and 2023 the following shareholders owned shares of the Micro Bank and comprise the Shareholder Group:

Shareholder	Percentage of total ordinary shares	Number of ordinary shares	Number of preference shares (A Class)	Number of preference shares (B Class)
Gia Petriashvili	31.76%	716,000	27,000	100
Otar Rukhadze	14.42%	325,000	108,000	400
Tengiz Maziashvili	9.29%	209,500	33,750	125
Taras Nizharadze	8.25%	186,000	99,900	190
Murman Ambroladze	7.98%	180,000	13,500	50
Goderdzi Meladze	6.65%	150,000	40,500	150
Giorgi Gotoshia	6.65%	150,000	13,500	50
Giorgi Vachnadze	5.48%	123,500	14,850	55
JB LLC	2.66%	60,000	27,000	100
Eter Chachibaia	2.00%	45,000	-	-
Giorgi Ghvaladze	1.95%	44,000	-	-
Tatia Jajanashvili	1.49%	33,500	-	-
Nino Devdariani	1.42%	32,000	-	-
	100.00%	**2,254,500**	**378,000**	**1,220**

Issued capital

As at 31 December 2024 and 2023 authorised, issued and outstanding share capital comprises 2,254,000 ordinary shares. All shares have a nominal value of GEL 1.

Difference between nominal value and market price is recognized as a share premium. As at 31 December 2024 and 2023 share premium amounts GEL 1,136 thousand.

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

Preference shares

During 2018, the Micro Bank issued 2,800 non-redeemable preference shares with nominal value of USD1,000. In 2022, according to minutes of the meeting #14, 50% of class B preference shares were converted into class A preference shares and the change was reflected in register of shares of the Micro Bank in January 2023. Nominal value of A class preference shares is GEL10. The ability to pay dividends is subject to the Micro Bank's financial condition and results of operations and other factors considered by Annual General Meeting.

In August 2023, in line with shareholders decision, the Micro Bank repurchased 180 B class preference shares from Taras Nizharadze with nominal value of GEL475 and it was converted into subordinated loan from shareholder.

Dividend payments on class A preference shares will be made at a variable rate, which consists of two components: the monetary policy rate approved by the National Bank of Georgia ("Refinancing rate") and rate approved by general meeting of shareholders, which is 6.5%. Dividend payment on class B preferred shares are made at a fixed rate of 10%. According the Charter of the Micro Bank, if based on the decision of AGM dividends on preference shares will not be paid two times in a row or dividend rate will be decreased, the holder of the preference shares has right to convert its preference shares into ordinary shares.

Subscribed capital

In accordance with the Law of Entrepreneurs of Georgia, the Micro Bank hereby declares that its share capital and preference shares fully represent the subscribed capital, amounting to GEL 9,244 thousand as at 31 December 2024 and 2023.

Dividends

Dividends payable are restricted to the maximum of retained earnings of the Micro Bank, which are determined according to Georgian legislation. In 2024 the Micro Bank declared preference dividends at amount of GEL866 (2023: GEL444).

(In thousands of Georgian Lari)

15. NET INTEREST INCOME

Interest income is arising from:	2024	2023
Loans to customers	29,700	24,402
Receivable from Related party	138	354
Modification gain of contractual cash flows of financial assets	94	149
Placements with banks	350	121
	30,282	**25,026**

Interest expense is arising from:	2024	2023
Borrowings from financial institutions	(4,010)	(3,672)
Borrowings from international financial institutions	(3,570)	(2,233)
Bonds	(2,001)	(2,313)
Borrowings from individuals	(977)	(808)
Leases	(417)	(385)
Other borrowings	(311)	(604)
	(11,286)	**(10,015)**

16. OTHER OPERATING EXPENSES

	2024	2023
Advertising and marketing	(727)	(641)
Office supplies	(319)	(176)
Loss from sale and impairment of repossessed properties	(309)	(450)
Consulting*	(249)	(217)
Tax expense other than income tax	(220)	(188)
Application inspection	(197)	(226)
Communication	(190)	(101)
Utilities	(183)	(211)
Bank charges	(133)	(82)
Security	(86)	(80)
Business trips	(66)	(68)
Transportation	(65)	(49)
Rent	(56)	(29)
Other	(198)	(296)
	(2,998)	**(2,814)**

*For 2024 and 2023, professional fees paid to the audit firm for the provision of audit and other professional services comprised GEL 71 and GEL 53, respectively.

17. COMMITMENTS AND CONTINGENCIES

LITIGATION

In the ordinary course of business, companies are usually subject to legal actions and complaints.

Following the Micro Bank's customers' failure to meet loan repayment obligations the Micro Bank is involved in legal disputes against such customers. The highest possible outcome from such legal disputes is the amount of loans receivable from such customers (including accrued interest and other charges).

Management is unaware of any significant actual, pending or threatened claims against the Micro Bank.

COMPLIANCE WITH COVENANTS

The Micro Bank is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Micro Bank including declaration of default.

The Micro Bank has complied with all the financial covenants stipulated by lending agreements as of 31 December 2024 and 2023.

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.

FINANCIAL GUARANTEES

As at 31 December 2024 and 2023 the Micro Bank has financial guarantee of GEL 2,200 thousand to a Georgian Commercial Bank to secure loan of a related party with premium rate of 1.5%-2%. The period of the guarantee is 10 years (5 years to maturity). The loan is secured by the property, for which the related party obtained the loan. The property (residential–commercial building in Tbilisi) is pledged under the same loan as a primary security. Based on management's assessment, there is a remote chance of default. As at 31 December 2024 and 2023 the Micro Bank allocated financial guarantee in Stage 1 for the purposes of identifying expected credit loss under IFRS 9. Management estimates that ECL is immaterial at reporting date.

MANAGEMENT REPORT

In accordance with the Law of Georgia on Security Markets (article 11) the Micro Bank has an obligation to prepare and submit Management Report to the State Regulatory Authority, together with Independent Auditors' Report no later than 15 May of the year following the reporting period. The Micro Bank has not prepared Management Report at the date of issue of the financial statements.

REGULATIONS OF NATIONAL BANK OF GEORGIA

The Micro Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Micro Bank's capital is monitored using, among other measures, the ratios established by the National Bank of Georgia in supervising the Micro Bank.

The primary objectives of the Micro Bank's capital management are (i) to ensure that the Micro Bank complies with externally imposed capital requirements set by the NBG, (ii) to safeguard the Micro Bank's ability to continue as a going concern and the Micro Bank's capital is monitored daily and monthly with reports outlining their calculation reviewed and subsequently submitted to the NBG.

The Micro Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Micro Bank may reassess its business strategy or adjust the amount of return capital to shareholders or issue capital securities.

According to the NBG regulations about capital adequacy (Decree N111/04 - 21 June 2023) capital requirements consist of a Pillar 1 minimum requirement (4.5%, 6.0%, 8.0% for CET1, Tier1 and Total Capital consequently), combined buffers (countercyclical and conservation buffers that were set at 0.25% and 2.5% respectively as at 31 December 2024) and Pillar 2 buffers.

Under total Basel III requirements the Micro Bank was required to maintain a minimum regulatory capital ratio, Tier 1 capital adequacy ratio and Common Equity Tier 1 capital adequacy ratio of 14.01%, 11.38% and 9.41%. The Micro Bank was in compliance with these capital adequacy ratios as at 31 December 2024.

(In thousands of Georgian Lari)

The calculation of the capital adequacy ratios in accordance with the IFRS-based NBG rules and capital adequacy Basel III framework as at 31 December 2024:

GEL'000	2024
Tier 1 capital	22,582
Supplementary capital	3,277
Total regulatory capital	**25,859**
Risk weighted assets*	**136,005**
Regulatory capital ratio*	19,01%
Common Equity Tier 1 capital adequacy ratio/tier 1 capital adequacy ratio*	16,60%

*These amounts are unaudited.

As at 31 December 2024 and as at the date these financial statements were authorised for issue (unaudited), the Micro Bank was in compliance with the minimum regulatory capital requirements.

18. TRANSACTIONS WITH RELATED PARTIES

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Micro Bank and other related parties are disclosed below.
Related party balances and transactions as and for the year ended 31 December 2024:

Financial statement caption	Shareholder	Other related parties	Key management personnel
Other Assets	-	-	-
Subordinated borrowings	4,427	1,136	-
Other borrowed funds	1,134	440	-
Lease Liabilities	-	3,005	-
Other liabilities	-	-	610
Fee and commission income	-	34	-
Interest income	-	137	-
Short-term employee benefits	-	-	(1,532)
Interest expense	(433)	(119)	-

Related party balances and transactions as and for the year ended 31 December 2023:

Financial statement caption	Shareholder	Other related parties	Key management personnel
Other Assets	-	1,009	-
Subordinated borrowings	4,243	1,079	-
Other borrowed funds	924	311	-
Lease Liabilities	-	2,641	-
Other liabilities	-	-	19
Fee and commission income	-	34	-
Interest income	-	354	-
Short-term employee benefits	-	-	(847)
Net gain from trading in foreign currency	-	345	-
Interest expense	(474)	(261)	-

19. EVENTS AFTER REPORTING PERIOD

Non-Adjusting:

Dividends - On 28 January 2025, according to the decision of the Supervisory Board, the Micro Bank declared preference dividends of GEL 912 thousand. As of the financial statements authorisation date, GEL 456 thousand had been paid. The decision regarding the payment of the remaining amount is expected to be made by the Supervisory Board in July 2025.