

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
**REPORT OF INDEPENDENT AUDITORS**  
**AND**  
**FINANCIAL STATEMENTS**  
**31 DECEMBER 2022**

**“MUNICIPAL DEVELOPMENT FUND OF GEORGIA”  
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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL  
OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022**

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Management is responsible for the preparation of the financial statements that fairly present the financial position of the Municipal Development Fund of Georgia (the "Fund") as at 31 December 2022, and the results of its operations, changes in reserves and cash flows for the year ended 31 December 2022, in compliance with International Financial Reporting Standards ("IFRSs").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in International Financial Reporting Standards (IFRSs) are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the fund's financial position and financial performance; and
- Making an assessment of the Fund's ability to continue as a going concern.

Management is also responsible for:

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

The financial statements of the fund for the year ended 31 December 2022 were approved by management on 30 June 2023.



**On behalf of the Management:**

  
\_\_\_\_\_  
**Davit Tabidze**  
Executive Director

30 June 2023

  
\_\_\_\_\_  
**Levan Sharvadze**  
Deputy Director – Chief  
Financial Officer



Moore Azerbaijan  
Tbilisi avenue, 49/C  
Chirag Plaza Business Centre, 9<sup>th</sup> floor  
Baku, Azerbaijan, AZ1065  
T: +994 12 490 77 47/48/49  
M: +99451 226 83 58  
[baku@moore.az](mailto:baku@moore.az)  
[www.moore.az](http://www.moore.az)

## REPORT OF INDEPENDENT AUDITORS

To the management of "Municipal Development Fund of Georgia"

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of "Municipal Development Fund of Georgia" (the "Fund"), which comprise the statement of financial position as at 31 December 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2022, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards.

#### 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 Fund in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

#### Other matter

These financial statements of the Fund for the year ended 31 December 2021, were audited by another auditor who expressed an unqualified opinion on these financial statements on 29 July 2022.

### 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

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

### **Auditors' responsibilities for the audit of the financial statements**

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 Fund'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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

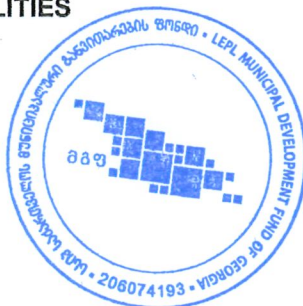
*Moore Azerbaijan*



30 June 2023

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2022**  
**(Expressed in GEL)**

|                                       | <u>Note</u> | <u>2022</u>        | <u>2021</u>        |
|---------------------------------------|-------------|--------------------|--------------------|
| <b>ASSETS</b>                         |             |                    |                    |
| <b>Non-current assets</b>             |             |                    |                    |
| Property and equipment                | 8           | 2,838,997          | 2,703,284          |
| Intangible assets                     |             | 86,722             | 128,171            |
| Receivables from municipalities       | 9           | 72,585,349         | 87,257,470         |
| Loans to municipalities               | 9           | 22,070,272         | 22,475,905         |
| Other loans disbursed                 | 10          | -                  | 183,441            |
| <b>Total non-current assets</b>       |             | <b>97,581,340</b>  | <b>112,748,271</b> |
| <b>Current assets</b>                 |             |                    |                    |
| Loans to municipalities               | 9           | 14,823,538         | 2,799,023          |
| Receivables from municipalities       | 9           | 7,608,704          | 7,513,502          |
| Other loans disbursed                 | 10          | 183,558            | 40,365,430         |
| Other current assets                  |             | 105,064            | 76,369             |
| Current tax asset                     |             | 1,121,053          | 1,178,935          |
| Receivables and advances              | 11          | 230,728,695        | 150,040,528        |
| Deposits in banks                     | 13          | 168,526,758        | 79,365,101         |
| Cash and cash equivalents             | 12          | 83,465,537         | 109,366,040        |
| <b>Total current assets</b>           |             | <b>506,562,907</b> | <b>390,704,928</b> |
| <b>TOTAL ASSETS</b>                   |             | <b>604,144,247</b> | <b>503,453,199</b> |
| <b>RESERVES AND LIABILITIES</b>       |             |                    |                    |
| <b>RESTRICTED RESERVES</b>            |             |                    |                    |
| Sources of financing                  | 17          | 308,408,432        | 209,777,312        |
| <b>UNRESTRICTED RESERVES</b>          |             |                    |                    |
| Retained earnings                     |             | 96,050,984         | 95,848,677         |
| <b>TOTAL RESERVES</b>                 |             | <b>404,459,416</b> | <b>305,625,989</b> |
| <b>LIABILITIES</b>                    |             |                    |                    |
| <b>Non-current liabilities</b>        |             |                    |                    |
| Grants related to assets              |             | 1,287,052          | 1,392,558          |
| Long-term debt                        | 14          | 72,832,739         | 87,298,362         |
| Provisions                            | 15          | 11,332,353         | 9,343,589          |
| <b>Total non-current liabilities</b>  |             | <b>85,452,144</b>  | <b>98,034,509</b>  |
| <b>Current liabilities</b>            |             |                    |                    |
| Current portion of long-term debt     | 14          | 17,536,684         | 7,204,368          |
| Trade and other payables              | 16          | 96,696,003         | 92,588,333         |
| <b>Total current liabilities</b>      |             | <b>114,232,687</b> | <b>99,792,701</b>  |
| <b>TOTAL RESERVES AND LIABILITIES</b> |             | <b>604,144,247</b> | <b>503,453,199</b> |



**Davit Tabidze**  
**Executive Director**

**Levan Sharvadze**  
**Deputy Director – Chief**  
**Financial Officer**

30 June 2023

Notes on pages 10-35 are an integral part of these financial statements

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**  
**(Expressed in GEL)**

|  | <u>Note</u>   | <u>2022</u>    | <u>2021</u>        |
|--|---------------|----------------|--------------------|
| Finance income from deposits in banks  | 5             | 20,477,003     | 14,415,256         |
| Finance income from loans to municipalities  |               | 2,669,160      | 2,852,995          |
| Other interest income  |               | 334,006        | 1,816,430          |
| Revenue from commission  |               | 506,240        | 426,517            |
| Other income   |               | 3,829,076      | 464,975            |
| Other expense  |               | (2,972,175)    | (91,108)           |
| (Provision for)/recovery of doubtful issued loans, receivables and advances, cash and deposits | 9,10,11,12,13 | (4,321,908)    | (3,882,119)        |
| Administrative expenses  | 6             | (13,773,887)   | (11,873,769)       |
| Foreign exchange (loss)/gain, net  | 7             | (6,545,208)    | (7,006,333)        |
| <b>Profit/(loss) before income tax</b>   |               | <b>202,307</b> | <b>(2,877,156)</b> |
| Income tax expense   |               | -              | -                  |
| <b>Net profit/ (loss) for the year</b>   |               | <b>202,307</b> | <b>(2,877,156)</b> |
| Other comprehensive income/(loss)  |               | -              | -                  |
| <b>Total comprehensive profit/(loss) for the year</b>  |               | <b>202,307</b> | <b>(2,877,156)</b> |

  
**Davit Tabidze**  
**Executive Director**

30 June 2023



  
**Levan Sharvadze**  
**Deputy Director – Chief**  
**Financial Officer**

Notes on pages 10-35 are an integral part of these financial statements

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
**STATEMENT OF CHANGES IN RESERVES**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**  
**(Expressed in GEL)**

|   | Share capital | Retained earnings | Total equity |
|---|---------------|-------------------|--------------|
| <b>Balance at 1 January 2021</b>        |               |                   |              |
| Total comprehensive loss for the year   | 178,989,089   | 99,355,806        | 278,344,895  |
| Transactions with shareholders          | -             | (2,877,156)       | (2,877,156)  |
| Net financing of implemented projects   | -             | (629,973)         | (629,973)    |
|   | 30,788,223    | -                 | 30,788,223   |
| <b>Balance at 31 December 2021</b>      | 209,777,312   | 95,848,677        | 305,625,989  |
| Total comprehensive profit for the year | -             | 202,307           | 202,307      |
| Net financing of implemented projects   | 98,631,120    | -                 | 98,631,120   |
| <b>Balance at 31 December 2022</b>      | 308,408,432   | 96,050,984        | 404,459,416  |



  
**Davit Tabidze**  
**Executive Director**

30 June 2023

  
**Levan Sharvadze**  
**Deputy Director – Chief Financial Officer**

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**  
**(Expressed in GEL)**

|  | <b>Note</b> | <b>2022</b>         | <b>2021</b>         |
|--|-------------|---------------------|---------------------|
| <b>Cash flows from operating activities:</b>                         |             |                     |                     |
| (Loss)/profit after income tax                                       |             | 202,307             | (2,877,156)         |
| <b>Adjustments for:</b>  |             |                     |                     |
| Depreciation of amortization expense                                 | 6           | 502,569             | 550,539             |
| Provision for / (recovery of) receivables and advances               | 11          | 4,054,543           | 3,612,186           |
| Recovery of deposits in bank   | 13          | 902,580             | (161,825)           |
| Provision for cash and cash equivalents                              | 12          | (599,167)           | 489,016             |
| Recovery of loans issued to municipalities and other loans disbursed | 9,10        | (36,049)            | (57,258)            |
| Provision for legal cases  | 6           | 1,988,765           | 1,735,219           |
| Income from grants related to assets                                 |             | (105,506)           | (105,923)           |
| Finance income   |             | (23,480,169)        | (19,084,681)        |
| Revenue from commission  |             | (506,240)           | (426,517)           |
| Foreign exchange loss/gain   | 7           | 6,545,208           | 7,006,333           |
| <b>Operating loss before working capital changes</b>                 |             | <b>(10,531,159)</b> | <b>(9,320,067)</b>  |
| Change in receivables and advances                                   |             | (84,889,217)        | (84,813,636)        |
| Change in other current assets                                       |             | (28,694)            | 22,134              |
| Changes in current tax assets  |             | 57,882              | 16,657              |
| Change in trade and other payables                                   |             | 4,107,671           | 38,316,794          |
| <b>Cash (used in)/generated from operations</b>                      |             | <b>(91,283,517)</b> | <b>(55,778,118)</b> |
| Income taxes paid  |             | -                   | -                   |
| <b>Net cash (used in)/generated from operating activities</b>        |             | <b>(91,283,517)</b> | <b>(55,778,118)</b> |
| <b>Cash flows from investing activities</b>                          |             |                     |                     |
| Purchases of property and equipment                                  | 8           | (672,882)           | (658,793)           |
| Proceeds on disposal of property and equipment                       | 8           | 76,049              | 100,674             |
| Repayment of loans to and receivables from municipalities, net       |             | 9,073,500           | 7,005,244           |
| Disbursement of other loans, net                                     |             | 40,725,126          | (8,749,617)         |
| Withdrawal/(placement) of deposits in banks                          |             | (89,499,999)        | 42,500,000          |
| Interest received, net   |             | 32,121,271          | 22,362,735          |
| <b>Net cash flows generated from investing activities</b>            |             | <b>(8,176,935)</b>  | <b>62,560,243</b>   |
| <b>Cash flows from financing activities</b>                          |             |                     |                     |
| Projects financing (spent)/received, net                             | 17          | 93,220,209          | 31,794,717          |
| Interest paid  |             | (9,628,797)         | (5,608,383)         |
| Repayment of long-term debt  | 14          | (4,231,929)         | (3,929,043)         |
| <b>Net cash generated from / (used in) financing activities</b>      |             | <b>79,359,483</b>   | <b>22,257,291</b>   |
| <b>Net increase in cash and cash equivalents</b>                     |             | <b>(20,100,969)</b> | <b>29,039,416</b>   |
| Effect of ECL on cash and cash equivalents                           |             | 599,167             | (489,016)           |
| Effect of foreign exchange rate changes on cash and cash equivalents |             | (6,398,701)         | (7,040,482)         |
| <b>Cash and cash equivalents at the beginning of the year</b>        | 12          | <b>109,366,040</b>  | <b>87,856,131</b>   |
| <b>Cash and cash equivalents at the end of the year</b>              | 12          | <b>83,465,537</b>   | <b>109,366,040</b>  |

  
**Davit Tabidze**  
**Executive Director**

30 June 2023

  
**Levan Sharvadze**  
**Deputy Director – Chief**  
**Financial Officer**

Notes on pages 10-35 are an integral part of these financial statements

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**  
**(Expressed in GEL)**

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**1. GENERAL INFORMATION**

Municipal Development Fund of Georgia (the "Fund" or "MDF") was established on 7 June 1997 by the Presidential Decree No. 294 "On management of funds for the development of municipal sector in Georgia".

The Fund is a legal Fund of public law, the objective of which is to support strengthening institutional and financial capacity of local government units, investing financial resources in local infrastructure and services, improving on sustainable basis the primary economic and social services for the local population and the provision of low-interest loans to legal entities of Georgia in the framework of the Government Program.

The founder and governing body of the fund is the Government of Georgia. The Fund is cooperating with the majority of the large investment banks and financial institutions operating in Georgia.

The number of employees of the Fund as at 31 December 2022 and 31 December 2021 were 179 and 171 respectively.

The financial statements of the Fund for the year ended 31 December 2022 were approved by management on 30 June 2023.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of preparation***

These financial statements have been prepared on the assumption that the Fund is a going concern and will continue in operation for the foreseeable future.

***Basis of accounting***

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that prices are directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Fund takes into account the characteristics of the asset and liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/ or disclosure purposes in these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

***Functional currency***

Items included in the financial statements are measured using the currency of the primary of the economic environment in which the Fund operates ("the functional currency"). The functional currency of the Fund is the Georgian Lari ("GEL"). The presentational currency of the financial statements of the Fund is the GEL.

***Offsetting***

Financial assets and financial 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 settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense are not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Fund.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**  
**(Expressed in GEL)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Foreign Currencies**

In preparing the financial statements of the Fund, transactions in currencies other than the Fund's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise. Below are the exchange rates as at year end which were used by the Fund for the purpose of these financial statements:

|         | <u>31 December 2022</u> | <u>31 December 2021</u> |
|---------|-------------------------|-------------------------|
| GEL/USD | 2.7020                  | 3.0976                  |
| GEL/EUR | 2.8844                  | 3.5040                  |

**Finance income**

Finance income from a financial asset is recognised when it is probable that the economic benefits will flow to the Fund and the amount of income can be measured reliably. Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

For the arrangement where the Fund's role is to arrange for another entity to provide the borrowings to the other parties, then the Fund is an agent and will need to record finance income at the net amount against related finance cost. Different is recognised as revenue from commissions in the statement of profit or loss.

**Short-term employee benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

**Income taxes**

Income taxes have been provided for in accordance with Georgian legislation enacted or substantively enacted by the reporting date. In May 2016, the parliament of Georgia approved a change in the current corporate taxation model, with changes applicable on 1 January 2017 for all entities apart from certain financial institutions. The changed model implies zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the funds's profit before tax, regardless of the retention or distribution status.

The new profit tax rules for the fund are effective as of 1 January 2019, which applies to the fund and the tax base comprise both actual and deemed profit distributions, including the following:

- Distributed profits;
- Expenses incurred or other payments not related to economic activities;
- Gratuitous supplies of goods/services and/or transfers of funds; and
- Representation expenses that exceed the maximum amount defined in the tax code.

Income tax on distributed profits is recognised as an expense at the moment dividends are declared and recorded under "income tax" in the statement of profit or loss. Current tax assets and tax liabilities for current and previous periods are measured at the amount expected to be obtained from or paid to tax authorities.

Tax imposed on the areas other than distributed profits as described above is recorded under "tax expenses" in the statement of profit and loss.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**  
**(Expressed in GEL)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income taxes (continued)**

Due to the changed concept of taxation the term taxable base of assets and liabilities loses its economic meaning and deferred tax liabilities and assets as defined in IAS 12-Income Tax, are not applicable under new corporate taxation model.

According to changes in Georgian Tax Code from 1 January 2019 non-profit organisations are subject to the new corporate tax code.

The previous profit tax regime, under which companies were subject to tax on their annual taxable profits, is now changed to a system where tax will have to be paid only if the non-profit organisation has free of charge supplies, non-economical expenses and representative expenses not related to organization's activities.

**Property and equipment**

Property and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property and equipment items are capitalised and the replaced part is retired.

At each end of the reporting period management assesses whether there is any indication of impairment of property and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss for the year within other income or costs.

**Depreciation**

Land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation is calculated based on the following annual rates:

|                                |            |
|--------------------------------|------------|
| Buildings                      | 50 years   |
| Machinery and equipment        | 5-20 years |
| Transport vehicles             | 7-9 years  |
| Furniture and office equipment | 5-20 years |

The residual value of an asset is the estimated amount that the Fund would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Impairment of property and equipment***

At the end of each reporting period, the Fund reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Fund estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

The carrying amounts of the Fund's property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

The recoverable amount of property and equipment is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If there has been a change in estimates that results in an increase of the recoverable amount, the impairment loss is reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had previously been recognised.

***Advances paid***

Advances paid are carried at cost less provision for impairment. Advances paid are classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the advances paid relate to an asset which will itself be classified as non-current upon initial recognition. Advances paid to acquire assets are transferred to the carrying amount of the asset once the Fund has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Fund. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

***Grants related to assets***

Grants related to assets are recognised as deferred income when they are received. Recognition in the statement of profit or loss is done on systematic basis over the periods in which the Fund recognises expenses for the related costs for which grants are intended to compensate.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Provisions***

Provisions are recognised when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that the Fund will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

***Contingent liabilities and assets***

Contingent liabilities are not recognised in the statement of financial position, but are disclosed in the notes to the financial statements, unless the probability of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the statement of financial position but are disclosed in the financial statements when an inflow of economic benefits is probable.

***Financial instruments***

Financial assets and financial liabilities are recognised when a Fund becomes a party to the contractual provisions of the instrument.

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 fair value through profit or loss) 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 fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

All recognised financial assets are measured subsequently in their entirety at their amortised cost or fair value, depending on the classification of the financial assets.

***Classification of financial assets***

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Fund's business model for managing them. The Fund measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, And
- The contractual terms of the financial asset give rise on specified dates to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the 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.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Fund may make the following irrevocable election/designation at initial recognition of a financial asset:

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Classification of financial assets (continued)***

- The Fund may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- The Fund may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Based on the past experience all financial assets are held in order to collect contractual cash flows and are classified into the first business model – Held to collect (H2C).

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Fund recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

***Impairment of financial assets***

The Fund recognises an allowance for expected credit losses (ECLs) for all debt instruments at amortised cost (loans disbursed, other receivables and deposits in banks). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the recovery of guarantee held or other credit enhancements that are integral to the contractual terms.

For collectively assessed trade receivables the Fund applies a simplified approach in calculating ECLs. Therefore, the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Fund has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Fund investigates availability of external ratings through the open sources including international rating agencies websites: Moody's, Fitch and S&Ps. When the external rating is not available, the Fund obtains financial statements of the counterparty determines benchmark rating based on financial ratios using the Moody's financial ratios study.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### ***Impairment of financial assets (continued)***

The management has concluded that it would require cost and effort to determine the credit risk of each loan on their respective dates of initial recognition. The Fund defined full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

The Fund considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Fund may also consider a financial asset to be in default when internal or external information indicates that the Fund is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Fund.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

### ***Derecognition of financial assets***

The Fund derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another Fund. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Fund continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment's revaluation reserve is reclassified to profit or loss.

### ***Cash and cash equivalents***

Cash and cash equivalents consist of cash on hand, balances on corresponded and term deposits with the commercial banks and state treasury with original maturity of less or equal to 90 days and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

### ***Deposits in Banks***

Deposits in banks consist of term deposits with commercial banks with an original maturity of more than 90 days.

### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

### ***Financial liabilities***

Financial liabilities are measured subsequently 'at FVTPL' or 'at amortised cost using the effective interest method'.

### ***Derecognition of financial liabilities***

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

### ***Loans and borrowings***

Loans and borrowings are initially recognised at their fair values less transaction costs incurred. Fair value is determined using the prevailing market rate of interest for a similar instrument. Subsequent to initial recognition, loans and borrowings are stated at amortised cost using the effective yield method, with any difference between the amount at initial recognition and redemption amount being recognised in profit or loss as an interest expense over the period of the borrowings. Borrowings are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Trade and other payables***

Trade payables are accrued when the counterparty performed its obligations under the contract. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

***Reserves***

Reserves are restricted if the related funds are restricted by the donors for implementation of specific projects. In the statement of changes in reserves the restricted reserves are composed of the sources of financing. Unrestricted reserves represent retained earnings.

***Sources of financing***

Sources of financing represent the net cumulative financing received and the respective expenditures incurred for the implementation of the projects. Project financing is recognised as sources of funds in the period when the cash inflow can be reasonably estimated and they become available and measurable. Expenditure is recognised on an accruals basis as a use of project funds when liabilities are incurred.

Expenditures spent for implementing projects for municipalities and loan financing provided in return, are recorded as decrease/increase in sources of financing.

***Reclassifications***

Certain reclassifications have been made to the statement of cash flows and Statements of profit or loss and other comprehensive income for the year ended 31 December 2021 to conform to the presentation as at 31 December 2022. These reclassifications are:

Reclassifications made in the statement of cash flow:

- Cash flows from disbursement/repayment of loans to and receivables from municipalities and other loans are reclassified to investing activities from financing activities.
- Net cash flows from interest receipts and payments were presented in investing activities. This amount is separately presented: Interest received is presented in investing activities and interest paid is reclassified to financing activities.
- Cash flows from withdrawal/placement of deposits in banks are reclassified to investing activities from operating activities.

Reclassifications made in the statement of profit or loss and other comprehensive income:

- Other expenses/(income), net shown in the statement of profit or loss and other comprehensive income are presented separately as other income and other expense.

Management believes that the current year presentation provides a better view of the presentation of the statement of cash flow and the statement of profit or loss and other comprehensive income.

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

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

***Key sources of estimation uncertainty***

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may 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.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
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**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

**Impairment of financial assets (loans disbursed, receivables and deposits in banks)**

The Fund creates an expected credit loss to account for estimated losses resulting from the inability of counterparties to make the required payments or suppliers to deliver agreed products or services. When evaluating the adequacy of an expected credit loss, management bases its estimate on current overall economic conditions, ageing of the receivables, prepayments balances and loans disbursed, historical write-off experience, customer and supplier creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer and supplier conditions may require adjustments to the expected credit loss recorded in the financial statements.

**Taxation**

Georgian tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Fund may be assessed additional taxes, penalties and interest. The Fund believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for 3 years

**4. STANDARDS, INTERPRETATIONS AND AMENDMENTS**

***Standards, interpretations and amendments to existing standards those are effective in 2022***

The following standards and amendments have become effective for the annual periods commencing on or after 1 January 2022:

| <b>Standard number</b> | <b>Title</b>   | <b>Effective date</b> |
|------------------------|--|-----------------------|
| IFRS 16                | Amendments to IFRS 16 - Covid-19-Related Rent Concessions                          | 1 January 2021        |
| IAS 16                 | Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before intended use | 1 January 2022        |
| IFRS 3                 | Amendments to IFRS 3 - Reference to the Conceptual Framework                       | 1 January 2022        |
| IAS 37                 | Amendments to IAS 37 - Onerous Contracts – Cost of Fulfilling a Contract           | 1 January 2022        |

**Annual Improvements to IFRS Standards 2018–2020**

|                                     |  |                |
|-------------------------------------|--|----------------|
| IFRS 10 & IAS 28                    | Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture | 1 January 2022 |
| IAS 1 and IFRS Practice Statement 2 | Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies                                    | 1 January 2022 |
| IAS 8                               | Amendments to IAS 8 - Disclosure of Accounting Policies and Definition of Accounting Estimates                           | 1 January 2022 |
| IAS 12                              | Amendments to IAS 12 - Deferred tax related to assets and liabilities arising from a single transaction                  | 1 January 2022 |

***Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Organization***

At the date of authorisation of these Financial Statements, the following relevant new standards, interpretations and amendments to existing standards have been published but are not yet effective and have not been adopted early by the Organization.

| <b>Standard number</b> | <b>Title</b>  | <b>Effective date</b> |
|------------------------|---|-----------------------|
| IFRS 17                | Insurance Contracts   | 1 January 2023        |
| IAS 1                  | Amendments to IAS 1 - Classification of Liabilities as Current or Non-current | 1 January 2023        |

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
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**4. STANDARDS, INTERPRETATIONS AND AMENDMENTS (CONTINUED)**

**IFRS 16 Leases**

Amendments to IFRS 16 'Leases' provide a practical expedient that permits lessees to account for the rent concessions, that occur as a direct consequence of the COVID - 19 pandemic and meet specified conditions, as if they were not lease modifications.

**IFRS 17 Insurance Contracts**

IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entity.

**IAS 1 Presentation of financial statements**

Amendments to IAS 1 'Presentation of financial statements' clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. The meaning of settlement of a liability is also clarified.

**IAS 16 Property, plant and equipment**

Amendments to IAS 16 'Property, plant and equipment' require an entity to recognize the sales proceeds from selling items produced while preparing property, plant and equipment for its intended use and the related costs in profit or loss, instead of deducting the amounts received from the cost of the asset.

**IFRS 3 Business combinations**

Amendments to IFRS 3 'Business combinations' update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

**IAS 37 Provisions, contingent liabilities and contingent assets**

Amendments to IAS 37 'Provisions, contingent liabilities and contingent assets' specify the costs that an entity includes when assessing whether a contract will be loss-making.

**5. FINANCE INCOME FROM DEPOSITS IN BANKS**

During the years ended 31 December 2022 and 2021 finance income from deposits in banks was as follows:

|  | <b>2022</b>       | <b>2021</b>       |
|--|-------------------|-------------------|
| Liberty Bank                                       | 7,710,109         | 3,322,903         |
| Terrabank  | 4,997,649         | 3,206,486         |
| Credo Bank   | 4,235,474         | 1,019,565         |
| TBC Bank   | 2,858,814         | 1,768,323         |
| VTB Bank   | 602,809           | 4,454,946         |
| Basisbank  | 72,148            | 62,438            |
| Finca Bank   | -                 | 580,595           |
| <b>Total finance income from deposits in banks</b> | <b>20,477,003</b> | <b>14,415,256</b> |

**6. ADMINISTRATIVE EXPENSES**

During the years ended 31 December 2022 and 2021 administrative expenses was as follows:

|  | <b>2022</b>       | <b>2021</b>       |
|--|-------------------|-------------------|
| Employee benefits  | 7,147,857         | 6,289,721         |
| Tax expenses other than income tax                             | 2,270,000         | 1,700,050         |
| Provision for legal cases                                      | 1,988,764         | 1,735,219         |
| Trips, transportation, advertising and representation expenses | 1,076,233         | 856,080           |
| Depreciation and amortisation                                  | 502,569           | 550,539           |
| Insurance expenses   | 382,713           | 344,308           |
| Other  | 405,751           | 397,852           |
| <b>Total administrative expenses</b>                           | <b>13,773,887</b> | <b>11,873,769</b> |

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
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**7. FOREIGN EXCHANGE (LOSS)/GAIN, NET**

During the years ended 31 December 2022 and 2021 foreign exchange (loss)/gain, net was as follows:

|                       | 2022             | 2021             |
|-----------------------|------------------|------------------|
| Foreign exchange gain | (1,456,282)      | (470,523)        |
| Foreign exchange loss | 8,001,490        | 7,476,856        |
| <b>Total</b>          | <b>6,545,208</b> | <b>7,006,333</b> |

**8. PROPERTY AND EQUIPMENT**

|   | Land           | Buildings        | Lease hold<br>improvements | Motor<br>vehicles | Equipment,<br>machinery, furniture<br>and other fixtures | Total            |
|---|----------------|------------------|----------------------------|-------------------|--|------------------|
| <b>Cost</b>                                   |                |                  |                            |                   |  |                  |
| <b>As at 1 January 2021</b>                   | <b>788,310</b> | <b>2,395,054</b> | <b>1,207,804</b>           | <b>2,084,893</b>  | <b>1,902,081</b>   | <b>8,378,142</b> |
| Additions                                     | -              | 87,357           | -                          | 378,767           | 192,669  | 658,793          |
| Disposals                                     | -              | -                | -                          | (146,142)         | (34,167)   | (180,309)        |
| <b>As at 31 December 2021</b>                 | <b>788,310</b> | <b>2,482,411</b> | <b>1,207,804</b>           | <b>2,317,518</b>  | <b>2,060,583</b>   | <b>8,856,626</b> |
| Additions                                     | -              | 24,999           | -                          | 566,879           | 81,005   | 672,883          |
| Disposals                                     | -              | -                | -                          | -                 | (89,395)   | (89,395)         |
| <b>As at 31 December 2022</b>                 | <b>788,310</b> | <b>2,507,410</b> | <b>1,207,804</b>           | <b>2,884,397</b>  | <b>2,052,193</b>   | <b>9,440,114</b> |
| <b>Accumulated depreciation</b>               |                |                  |                            |                   |  |                  |
| <b>As at 1 January 2021</b>                   | -              | <b>1,629,038</b> | <b>1,185,480</b>           | <b>1,641,380</b>  | <b>1,271,962</b>   | <b>5,727,860</b> |
| Charge for the year                           | -              | 40,755           | 225                        | 309,609           | 154,528  | 505,117          |
| Eliminated on disposal                        | -              | -                | -                          | (79,635)          | -  | (79,635)         |
| <b>As at 31 December 2021</b>                 | -              | <b>1,669,793</b> | <b>1,185,705</b>           | <b>1,871,354</b>  | <b>1,426,490</b>   | <b>6,153,342</b> |
| Charge for the year                           | -              | 44,923           | 225                        | 287,132           | 128,840  | 461,120          |
| Eliminated on disposal                        | -              | -                | -                          | -                 | (13,345)   | (13,345)         |
| <b>As at 31 December 2022</b>                 | -              | <b>1,714,716</b> | <b>1,185,930</b>           | <b>2,158,486</b>  | <b>1,541,985</b>   | <b>6,601,117</b> |
| <b>Carrying amount as at 31 December 2021</b> | <b>788,310</b> | <b>812,618</b>   | <b>22,099</b>              | <b>446,164</b>    | <b>634,093</b>   | <b>2,703,284</b> |
| <b>Carrying amount as at 31 December 2022</b> | <b>788,310</b> | <b>792,694</b>   | <b>21,874</b>              | <b>725,911</b>    | <b>510,208</b>   | <b>2,838,997</b> |

In the year 2007, MDF received from the Ministry of Economy of Georgia an administrative building and land, located at 150 Agmashenebeli Avenue, Tbilisi, Georgia, under the terms of usufruct". According to the agreement, MDF can use the building for the whole period of the Fund's existence. The transfer of the building is the scope of IAS 20.

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**9. LOANS TO AND RECEIVABLES FROM MUNICIPALITIES**

At 31 December 2022 and 2021 loans to municipalities were as follows:

|  | <u>2022</u>              | <u>2021</u>              |
|--|--------------------------|--------------------------|
| Current portion                                | 15,041,069               | 2,983,520                |
| Long-term portion                              | 22,361,103               | 22,810,013               |
|  | <u>37,402,172</u>        | <u>25,793,533</u>        |
| Provision for doubtful loans to municipalities | (508,362)                | (518,605)                |
| <b>Total loans to municipalities</b>           | <u><b>36,893,810</b></u> | <u><b>25,274,928</b></u> |

Current portion of loans to municipalities include the following:

|   | <u>2022</u>              | <u>2021</u>             |
|---|--------------------------|-------------------------|
| Principal receivable                                    | 14,814,161               | 2,806,648               |
| Interest receivable                                     | 8,478                    | 8,479                   |
| Penalties receivable                                    | 218,430                  | 168,393                 |
|   | <u>15,041,069</u>        | <u>2,983,520</u>        |
| Provision for doubtful loans to municipalities          | (217,531)                | (184,497)               |
| <b>Total current portion of loans to municipalities</b> | <u><b>14,823,538</b></u> | <u><b>2,799,023</b></u> |

As at 31 December 2022 and 2021, movement of expected credit loss for loans to municipalities was as follows:

|  | <u>2022</u>           | <u>2021</u>           |
|--|-----------------------|-----------------------|
| <b>Provision for doubtful loans to municipalities at the beginning of the period</b> | <u><b>518,605</b></u> | <u><b>442,038</b></u> |
| Additional provision recognised during the year                                      | 236,342               | 164,352               |
| Recovery of doubtful loans to municipalities   | (246,585)             | (87,785)              |
| <b>Provision for doubtful loans to municipalities at the end of the period</b>       | <u><b>508,362</b></u> | <u><b>518,605</b></u> |

Loans to municipalities represent loans disbursed by MDF to local self-governments within the scope of different projects financed by international financial institutions.

Loans are disbursed to municipalities for implementing the sub-projects for the rehabilitation and expansion of priority municipal services and infrastructure needs. Loans carry an interest rate of 11-12% and are disbursed for an average period of 10 years. Loans issued to municipalities are unsecured.

The breakdown of receivables from municipalities is as follows:

|  | <u>2022</u>              | <u>2021</u>              |
|--|--------------------------|--------------------------|
| Current portion                                | 7,608,704                | 7,513,502                |
| Long-term portion                              | 72,585,349               | 87,257,470               |
|  | <u>80,194,053</u>        | <u>94,770,972</u>        |
| Provision for doubtful loans to municipalities | -                        | -                        |
| <b>Total receivables from municipalities</b>   | <u><b>80,194,053</b></u> | <u><b>94,770,972</b></u> |

Receivables from municipalities represent receivables for work performed by MDF within Solid Waste Management Project (SWMP) and Georgia Urban Transport Enhancement Programme (GUTEP), which are financed through long-term debt and the Fund is acting as an agent (Note 14). Receivables from municipalities carry an interest rate of refinancing rate +0.5% and mature in April 2026 (SWMP) and August 2029 (GUTEP). Receivables from municipalities are unsecured, but MDF carries no real credit risk for those balances as the Fund is not obliged to pay money to the government in case municipalities will not pay the money, therefore management did not assign any expected credit loss to these balances.

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**9. LOANS TO AND RECEIVABLES FROM MUNICIPALITIES (CONTINUED)**

The breakdown of loans to and receivables from municipalities as of 31 December 2022 is follows:

| <b>Municipality</b>                                   | <b>Current portion</b> | <b>Non-current portion</b> | <b>Total 2022</b>  |
|---|------------------------|----------------------------|--------------------|
| Kutaisi   | 4,824,514              | 20,936,281                 | 25,760,795         |
| Rustavi   | 4,080,192              | 18,661,495                 | 22,741,687         |
| Gori  | 2,887,696              | 12,114,026                 | 15,001,722         |
| Zugdidi   | 2,529,683              | 11,238,715                 | 13,768,398         |
| Gardabani   | 875,733                | 8,977,087                  | 9,852,820          |
| Telavi  | 794,681                | 3,382,834                  | 4,177,515          |
| Poti  | 731,047                | 3,247,883                  | 3,978,930          |
| Khashuri  | 435,757                | 3,042,788                  | 3,478,545          |
| Ambrolauri  | 115,633                | 2,269,397                  | 2,385,029          |
| Zestaponi   | 276,548                | 714,715                    | 991,263            |
| Lentekhi  | 688,909                | 138,994                    | 827,902            |
| Mestia  | 287,872                | 524,678                    | 812,550            |
| Akmeta  | 173,675                | 568,138                    | 741,813            |
| Kobuleti  | 131,966                | 590,052                    | 722,018            |
| Signagi   | 271,014                | 438,004                    | 709,018            |
| Kaspi   | 253,410                | 414,934                    | 668,344            |
| Tsalenjikha   | 238,228                | 417,452                    | 655,681            |
| Tetritskaro   | 220,782                | 433,180                    | 653,962            |
| Ninotsminda   | 74,306                 | 517,947                    | 592,253            |
| Martvili  | 194,802                | 344,307                    | 539,109            |
| Mtskheta  | 134,714                | 314,294                    | 449,008            |
| Akhaltzikhe   | 128,392                | 299,545                    | 427,937            |
| Ozurgeti  | 123,164                | 287,356                    | 410,520            |
| Chokhatauri   | 89,785                 | 207,264                    | 297,049            |
| Akhalkalaki   | 86,258                 | 201,243                    | 287,501            |
| Chiatura  | 82,278                 | 191,964                    | 274,242            |
| Gurjaani  | 81,762                 | 190,760                    | 272,522            |
| Kvareli   | 81,762                 | 190,759                    | 272,521            |
| Lagodekhi   | 79,775                 | 185,871                    | 265,646            |
| Sachkhere   | 79,698                 | 185,934                    | 265,632            |
| Samtredia   | 75,135                 | 175,301                    | 250,436            |
| Marneuli  | 67,159                 | 156,679                    | 223,838            |
| Dusheti   | 64,156                 | 149,674                    | 213,830            |
| Terjola   | 62,159                 | 145,024                    | 207,183            |
| Lanchkhuti  | 62,159                 | 145,024                    | 207,183            |
| Tkibuli   | 62,159                 | 145,024                    | 207,183            |
| Bolnisi   | 61,578                 | 143,662                    | 205,240            |
| Bagdati   | 59,653                 | 139,171                    | 198,824            |
| Oni   | 59,579                 | 138,994                    | 198,573            |
| Borjomi   | 59,578                 | 138,994                    | 198,572            |
| Tsalka  | 59,578                 | 138,994                    | 198,572            |
| Adigeni   | 59,578                 | 138,994                    | 198,572            |
| Dmanisi   | 59,578                 | 138,994                    | 198,572            |
| Vani  | 59,578                 | 138,994                    | 198,572            |
| Tsageri   | 59,578                 | 138,994                    | 198,572            |
| Tskaltubo   | 59,578                 | 138,994                    | 198,572            |
| Sagarejo  | 57,082                 | 133,178                    | 190,260            |
| Dedoplistskaro  | 57,173                 | 133,178                    | 190,351            |
| Khobi   | 55,129                 | 128,362                    | 183,491            |
| Chkhorotsku   | 55,129                 | 128,361                    | 183,490            |
| Abasha  | 55,016                 | 128,361                    | 183,377            |
| Senaki  | 55,016                 | 128,361                    | 183,377            |
| Khoni   | 55,016                 | 128,361                    | 183,377            |
| Kharagauli  | 54,566                 | 127,306                    | 181,872            |
| Kareli  | 53,016                 | 123,694                    | 176,710            |
| Tianeti   | 43,353                 | 101,148                    | 144,501            |
| Kazbegi   | 34,607                 | 79,760                     | 114,367            |
| Keda  | 28,707                 | 66,974                     | 95,680             |
| Mr. Givi Tsetskladze                                  | 1,088                  | -                          | 1,088              |
| Aspindza  | 56                     | -                          | 58                 |
|   | <b>22,649,773</b>      | <b>94,946,452</b>          | <b>117,596,225</b> |
| Provision for doubtful issued loans to municipalities | (217,531)              | (290,831)                  | (508,362)          |
| <b>Total</b>  | <b>22,432,242</b>      | <b>94,655,621</b>          | <b>117,087,863</b> |

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**9. LOANS TO AND RECEIVABLES FROM MUNICIPALITIES (CONTINUED)**

The breakdown of loans to and receivables from municipalities as of 31 December 2021 is follows:

| <b>Municipality</b>                                   | <b>Current portion</b> | <b>Non-current portion</b> | <b>Total 2021</b>  |
|---|------------------------|----------------------------|--------------------|
| Kutaisi   | 1,458,607              | 24,810,760                 | 26,269,367         |
| Rustavi   | 949,003                | 21,835,957                 | 22,784,960         |
| Gori  | 933,561                | 14,431,753                 | 15,365,314         |
| Zugdidi   | 1,141,203              | 13,379,465                 | 14,520,668         |
| Gardabani   | 62,523                 | 8,010,825                  | 8,073,348          |
| Telavi  | 272,792                | 4,018,551                  | 4,291,343          |
| Poti  | 203,462                | 3,823,279                  | 4,026,741          |
| Khashuri  | 103,586                | 3,446,093                  | 3,549,679          |
| Zestaponi   | 258,737                | 968,204                    | 1,226,941          |
| Mestia  | 268,569                | 810,311                    | 1,078,880          |
| Signagi   | 250,372                | 707,844                    | 958,216            |
| Ninotsminda   | 124,332                | 792,035                    | 916,367            |
| Akmeta  | 165,396                | 739,270                    | 904,666            |
| Kaspi   | 234,459                | 664,232                    | 898,691            |
| Tsalenjikha   | 231,991                | 644,626                    | 876,617            |
| Tetritskaro   | 204,976                | 636,171                    | 841,147            |
| Kobuleti  | 122,121                | 703,320                    | 825,441            |
| Lentekhi  | 538,326                | 194,594                    | 732,920            |
| Martvili  | 181,877                | 536,908                    | 718,785            |
| Mtskheta  | 136,781                | 440,013                    | 576,794            |
| Akhaltzikhe   | 130,362                | 419,363                    | 549,725            |
| Ozurgeti  | 125,055                | 402,296                    | 527,351            |
| Ambrolauri  | 117,405                | 377,157                    | 494,562            |
| Chokhatauri   | 90,204                 | 290,172                    | 380,376            |
| Akhalkalaki   | 87,582                 | 281,741                    | 369,323            |
| Chiatura  | 83,541                 | 268,748                    | 352,289            |
| Gurjaani  | 83,017                 | 267,061                    | 350,078            |
| Kvareli   | 83,017                 | 267,061                    | 350,078            |
| Sachkhere   | 80,921                 | 260,310                    | 341,231            |
| Lagodekhi   | 80,998                 | 260,217                    | 341,215            |
| Samtredia   | 76,289                 | 245,416                    | 321,705            |
| Marneuli  | 68,189                 | 219,353                    | 287,542            |
| Dusheti   | 65,141                 | 209,546                    | 274,687            |
| Terjola   | 63,113                 | 203,032                    | 266,145            |
| Lanchkhuti  | 63,113                 | 203,032                    | 266,145            |
| Tkibuli   | 63,113                 | 203,032                    | 266,145            |
| Bolnisi   | 62,523                 | 201,128                    | 263,651            |
| Bagdati   | 60,569                 | 194,841                    | 255,410            |
| Tsalka  | 60,578                 | 194,594                    | 255,172            |
| Tskaltubo   | 60,578                 | 194,594                    | 255,172            |
| Adigeni   | 60,492                 | 194,597                    | 255,089            |
| Oni   | 60,495                 | 194,594                    | 255,089            |
| Borjomi   | 60,493                 | 194,594                    | 255,087            |
| Dmanisi   | 60,493                 | 194,594                    | 255,087            |
| Vani  | 60,493                 | 194,594                    | 255,087            |
| Tsageri   | 60,493                 | 194,594                    | 255,087            |
| Chkhorotsku   | 71,322                 | 179,703                    | 251,025            |
| Sagarejo  | 58,405                 | 186,448                    | 244,853            |
| Dedoplistskaro  | 57,958                 | 186,448                    | 244,406            |
| Khobi   | 55,860                 | 179,703                    | 235,563            |
| Abasha  | 55,860                 | 179,703                    | 235,563            |
| Senaki  | 55,860                 | 179,703                    | 235,563            |
| Khoni   | 55,860                 | 179,703                    | 235,563            |
| Kharagauli  | 55,403                 | 178,228                    | 233,631            |
| Aspindza  | 53,830                 | 173,169                    | 226,999            |
| Kareli  | 53,830                 | 173,169                    | 226,999            |
| Tianeti   | 44,018                 | 141,605                    | 185,623            |
| Kazbegi   | 38,728                 | 111,666                    | 150,394            |
| Keda  | 29,147                 | 93,763                     | 122,910            |
|   | <b>10,497,022</b>      | <b>110,067,483</b>         | <b>120,564,505</b> |
| Provision for doubtful issued loans to municipalities | (184,497)              | (334,108)                  | (518,605)          |
| <b>Total</b>  | <b>10,312,525</b>      | <b>109,733,375</b>         | <b>120,045,900</b> |

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**10. OTHER LOANS DISBURSED**

|  | <b>2022</b>    | <b>2021</b>       |
|--|----------------|-------------------|
| Current portion                              | 183,558        | 40,391,120        |
| Long-term portion                            | -              | 183,557           |
|  | <b>183,558</b> | <b>40,574,677</b> |
| Provision for doubtful other loans disbursed | -              | (25,806)          |
| <b>Total other loans disbursed</b>           | <b>183,558</b> | <b>40,548,871</b> |

The current portion of other loans disbursed includes the following:

|  | <b>2022</b>    | <b>2021</b>       |
|--|----------------|-------------------|
| Current portion of other loans disbursed     | 183,558        | 40,391,120        |
| Provision for doubtful other loans disbursed | -              | (25,690)          |
| <b>Total other loans disbursed</b>           | <b>183,558</b> | <b>40,365,430</b> |

As at 31 December 2022 and 2021, movement of expected credit loss for other loans was as follows:

|  | <b>2022</b>   | <b>2021</b>    |
|--|---------------|----------------|
| <b>Provision for doubtful other loans at the beginning of the period</b> | <b>25,806</b> | <b>159,631</b> |
| Reversal of provision during the year                                    | (25,806)      | (133,825)      |
| <b>Provision for doubtful other loans at the end of the period</b>       | <b>-</b>      | <b>25,806</b>  |

|  | <b>Interest</b> | <b>2022</b>    | <b>2021</b>       |
|--|-----------------|----------------|-------------------|
| United Airports of Georgia                   | A               | 0%             | -                 |
| United Water Supply Company of Georgia       | B               | 2%             | 183,558           |
|  |                 | <b>183,558</b> | <b>40,574,677</b> |
| Provision for doubtful other loans disbursed |                 | -              | (25,806)          |
| <b>Total</b>                                 |                 | <b>183,558</b> | <b>40,548,871</b> |

A: In December 2019 based on the Government decree MDF issued loans to United Airports of Georgia at 0%. The approved limit for the loan is GEL 40,000,000, which is fully utilized as at 31 December 2021. The aim of the financing was to renovate the airport located in Kutaisi. The loan was paid on 18 February 2022.

B: During the previous years MDF had disbursed loans to United Water Supply Company of Georgia for Poti, Borjomi and Kutaisi Municipalities infrastructure projects. The right of use of the related assets, together with the respective liability for the loan disbursed by MDF, was transferred from the municipality to United Water Supply Company of Georgia by the Government decree.

**11. RECEIVABLES AND ADVANCES**

|   | <b>2022</b>        | <b>2021</b>        |
|---|--------------------|--------------------|
| <b>Financial assets</b>                         |                    |                    |
| Receivables from municipalities                 | 10,588,978         | 6,081,287          |
| Receivables from terminated contracts           | 2,837,083          | 2,793,175          |
| Other receivables                               | 21,085,181         | 6,912,488          |
|   | <b>34,511,242</b>  | <b>15,786,950</b>  |
| <b>Non-financial assets</b>                     |                    |                    |
| Advances to suppliers                           | 208,482,724        | 142,464,306        |
|   | <b>242,993,966</b> | <b>158,251,256</b> |
| Provision for doubtful receivables and advances | (12,265,271)       | (8,210,728)        |
| <b>Total receivables and advances</b>           | <b>230,728,695</b> | <b>150,040,528</b> |

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**11. RECEIVABLES AND ADVANCES (CONTINUED)**

Advances to contractors are paid within the scope of projects signed between the Government of Georgia and Donor Organizations for which the implementing agency is MDF. Advances to contractors include payments to construction companies in the amount of GEL 205,874,770 for the year ended 2022 (GEL 137,094,671 for the year ended 2021) for the construction, rehabilitation of the infrastructure, acquisition of goods, supervision of construction works and for other services in different regions. Advances are redeemed step-by-step on every certificate of works done presented by contractor and residual amount is fully redeemed when the performance of works and services is 80-90% complete. Contractors are obliged to provide bank guarantees for full amount of advances and a performance guarantee for 10% of total contract amount.

Receivables from terminated contracts represent outstanding receivables from contractors who failed to deliver projects according to the pre-agreed terms.

Receivables from municipalities represent the share of municipalities co-financing for the municipal projects implemented by MDF.

As at 31 December 2022 and 2021, movement of expected credit loss for receivable and advances was as follows:

|   | <u>2022</u>       | <u>2021</u>      |
|---|-------------------|------------------|
| <b>Provision for doubtful receivables and advances at the beginning of the period</b> | <b>8,210,728</b>  | <b>4,137,727</b> |
| Additional provision recognised during the year                                       | 5,492,836         | 4,705,701        |
| Reversal of provision during the year   | (1,438,293)       | (632,700)        |
| <b>Provision for doubtful receivable and advances at the end of the period</b>        | <b>12,265,271</b> | <b>8,210,728</b> |

**12. CASH AND CASH EQUIVALENTS**

|   | <u>2022</u>       | <u>2021</u>        |
|---|-------------------|--------------------|
| Commercial bank accounts                | 7,000,000         | 52,500,000         |
| State treasury accounts                 | 76,657,630        | 57,657,300         |
|   | <b>83,657,630</b> | <b>110,157,300</b> |
| Provision for Cash and cash equivalents | (192,093)         | (791,260)          |
| <b>Total cash and cash equivalents</b>  | <b>83,465,537</b> | <b>109,366,040</b> |

As at 31 December 2022 and 2021, movement of expected credit loss for cash and cash equivalents was as follows:

|  | <u>2022</u>    | <u>2021</u>    |
|--|----------------|----------------|
| <b>Provision for doubtful cash and cash equivalents at the beginning of the period</b> | <b>791,260</b> | <b>302,244</b> |
| Additional provision recognised during the year  | 39,560         | 671,211        |
| Reversal of provision during the year  | (638,727)      | (182,195)      |
| <b>Provision for doubtful cash and cash equivalents at the end of the period</b>       | <b>192,093</b> | <b>791,260</b> |

As at 31 December 2022 Fund\_ the balance of cash and cash equivalents disclosed above includes EUR 4.6 millions ( As at 31 December 2021 the balance of cash and cash equivalents disclosed above includes EUR 5.8 million (GEL 20.3 million)), which is held by MDF for the implementation of the project "Renewed Regions". This balance of cash and cash equivalent is subject to restrictions from the Government of Georgia and therefore is not available for general use by the Fund.

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**13. DEPOSITS IN BANK**

|                      | <b>2022</b>        | <b>2021</b>       |
|----------------------|--------------------|-------------------|
| Time deposits        | 158,394,746        | 68,317,347        |
| Deposit certificates | 12,000,000         | 12,013,162        |
|                      | <b>170,394,746</b> | <b>80,330,509</b> |
| Expected credit loss | (1,867,988)        | (965,408)         |
| <b>Total</b>         | <b>168,526,758</b> | <b>79,365,101</b> |

As at 31 December 2022 and 2021 the balance of deposits in banks disclosed above includes GEL 79.02 million for both reporting date, which are held by MDF for the implementation of the project "Renewed Regions". These deposits are subject to restrictions from Government of Georgia and therefore are not available for general use by the Fund.

As at 31 December 2022 and 2021, movement of expected credit loss for deposits in bank was as follows:

|   | <b>2022</b>      | <b>2021</b>      |
|---|------------------|------------------|
| <b>Provision for doubtful deposit in banks at the beginning of the period</b> | <b>965,407</b>   | <b>1,127,232</b> |
| Additional provision recognized during the year                               | 1,053,760        | 529,308          |
| Reversal of provision during the year   | (151,179)        | (691,132)        |
| <b>Provision for doubtful deposit in banks at the end of the period</b>       | <b>1,867,988</b> | <b>965,408</b>   |

**14. LONG-TERM DEBT**

|   | <b>Currency</b> | <b>Interest rate</b> | <b>2022</b>       | <b>2021</b>       |
|---|-----------------|----------------------|-------------------|-------------------|
| <b>Unsecured long-term borrowings:</b>                    |                 |                      |                   |                   |
| A loan from the Ministry of Finance (under EBRD projects) | GEL             | Refinancing rate     | 90,369,423        | 94,502,730        |
| <b>Total long-term debt</b>                               |                 |                      | <b>90,369,423</b> | <b>94,502,730</b> |
|   |                 |                      | <b>2022</b>       | <b>2021</b>       |
| Current   |                 |                      | 17,536,684        | 7,204,368         |
| Non-current   |                 |                      | 72,832,739        | 87,298,362        |
| <b>Total long-term debt</b>                               |                 |                      | <b>90,369,423</b> | <b>94,502,730</b> |

As described in note 9 above, during the years 2022 and 2021 the Government of Georgia (GoG) received (date of the first tranche being 30 September 2016) a long-term loan from the European Bank for Reconstruction and Development (EBRD) for the execution of Solid Waste Management Project (SWMP) and Georgia Urban Transport Enhancement Programme (GUTEP). The original currency of the loans from EBRD is in Euro and with an annual interest rate equal to the refinancing rate determined by the National Bank of Georgia. The maturity date of the loan for SWMP is determined to be April 20 and, as for GUTEP - August 2029. The loan is repayable in local currency using an exchange rate determined when the whole amount was disbursed.

Under the subsidiary loan agreement between GoG and MDF, the loan proceeds were received by MDF, which in its turn transferred the loan to the ultimate beneficiary municipalities. According to the agreement signed with GoG, the Fund can delay re-payment of borrowings, if the delay is caused from Municipalities failure to repay loans disbursed within above arrangement. The fund considers that it is an agent in these contracts, as far as, it does not take the credit risk from the counterparty, does not have the ability to direct the use of the funds or determine the terms of the sub-loaned amounts based on counterparty risk.

Due to agent relationship interest expense has been netted off with related interest income in the statement of profit and loss, while the commission charge of 0.5% has been recognised as commission income.

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**14. LONG-TERM BORROWINGS (CONTINUED)**

|                      | <u>01 Jan 22</u>  | <u>Financing<br/>cash flows (i)</u> | <u>Other<br/>changes (ii)</u> | <u>31 Dec 2022</u> |
|----------------------|-------------------|-------------------------------------|-------------------------------|--------------------|
| Long-term borrowings | 94,502,730        | (4,306,391)                         | 173,084                       | 90,369,423         |
| <b>Total</b>         | <b>94,502,730</b> | <b>(4,306,391)</b>                  | <b>173,084</b>                | <b>90,369,423</b>  |
|                      | <u>01 Jan 21</u>  | <u>Financing<br/>cash flows (i)</u> | <u>Other<br/>changes (ii)</u> | <u>31 Dec 2021</u> |
| Long-term borrowings | 66,578,398        | 25,692,410                          | 2,231,922                     | 94,502,730         |
| <b>Total</b>         | <b>66,578,398</b> | <b>25,692,410</b>                   | <b>2,231,922</b>              | <b>94,502,730</b>  |

i. The cash flows make up the net amount of proceeds and repayments from borrowings in the statement of cash flows. From the total financing cash flows GEL 29,621,454 is attributable to a non-cash transaction, specifically to borrowed money that directly were received by contractors from the donors.

ii. Other changes include interest accruals.

**15. PROVISIONS**

|                                   | <u>Provision for legal<br/>cases</u> |
|-----------------------------------|--------------------------------------|
| <b>At 1 January 2022</b>          | <b>9,343,589</b>                     |
| Additional provision for the year | 1,988,765                            |
| <b>At 31 December 2022</b>        | <b>11,332,354</b>                    |

Provision for legal cases represents management's best estimate of the Fund's liability under legal cases.

**16. TRADE AND OTHER PAYABLES**

|                                       | <u>2022</u>       | <u>2021</u>       |
|---------------------------------------|-------------------|-------------------|
| <b>Financial liabilities</b>          |                   |                   |
| Retentions payable to contractors     | 15,432,309        | 8,477,207         |
| Payables to the Government            | 24,758,238        | 51,844,325        |
| Other accounts payable                | 32,329,313        | 19,363,651        |
|                                       | <b>72,519,860</b> | <b>79,685,183</b> |
| <b>Non-financial liabilities</b>      |                   |                   |
| Advances received from municipalities | 24,176,143        | 12,903,150        |
|                                       | <b>24,176,143</b> | <b>12,903,150</b> |
| <b>Total trade and other payables</b> | <b>96,696,003</b> | <b>92,588,333</b> |

MDF retains 5-10% of the invoice amounts for the construction works in the framework of implemented project expenditures for possible future losses. The retained amount is presented under retentions payable to contractors. These amounts are subject to payment to constructors one year after the construction works are completed.

Payables to the Government includes overdraft balance of treasury account and guarantees received from counterparties refundable to the state Budget.

For trade payables the average credit period on purchases of certain goods and services is 1-2 months. No interest is charged on the trade payables. The Fund has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

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**17. SOURCES OF FINANCING**

| Source of financing as at<br>1 January                               | 2022               |                      | 2021               |                      |
|--|--------------------|----------------------|--------------------|----------------------|
|  | 209,777,312        |                      | 178,989,089        |                      |
|  | Funds<br>received  | Funds used           | Funds<br>received  | Funds used           |
| Government of Georgia  | 462,279,854        | (416,401,213)        | 384,648,866        | (342,793,915)        |
| Asian Development Bank   | 95,047,512         | (55,955,151)         | 170,270            | (12,478,106)         |
| Municipalities   | -                  | (5,979,361)          | -                  | (2,080,809)          |
| Swedish International<br>Development Agency                          | -                  | (1,181,758)          | -                  | -                    |
| Government of France   | -                  | -                    | 5,386,318          | (5,764,546)          |
| European Bank for<br>Reconstruction and<br>Development               | 1,822,152          | (1,433,170)          | 33,001,866         | (33,681,428)         |
| MDF  | 934,714            | (1,769,390)          | 2,311,836          | (8,779,189)          |
| World Bank   | 84,716,940         | (60,339,760)         | 39,557,411         | (23,459,685)         |
| European Investment<br>Bank  | 18,804,391         | (10,307,871)         | 11,694,171         | (14,936,004)         |
| Council of Europe<br>Development Bank                                | 15,078,100         | (25,217,597)         | 6,989,200          | (4,654,160)          |
| Nordic Environment<br>Finance Corporation                            | -                  | (1,467,272)          | 1,919,441          | (6,263,314)          |
| <b>Net financing of<br/>implemented projects<br/>during the year</b> | <b>678,683,663</b> | <b>(580,052,543)</b> | <b>485,679,379</b> | <b>(454,891,156)</b> |
| <b>Source of financing as at<br/>31 December</b>                     | <b>308,408,432</b> |                      | <b>209,777,312</b> |                      |

Source of financing balance represents net amount of financing received and expenditures incurred under projects financed by various donor organizations. When funds received from certain donor organization exceeds spending for implementation of determined projects during accounting year, net amount of financing will be positive at the end of reporting period, and vice versa. For the year ended 31 December 2022 funds received excludes the amount of GEL (5,410,907) for which the Fund has received cash in current accounting period, but has already recognized funds received in previous accounting period.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
NOTES ON FINANCIAL STATEMENTS (CONTINUED)  
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**17. SOURCES OF FINANCING (CONTINUED)**

The breakdown of funds used by nature for 2022 and 2021 are as follows:

|  | Construction<br>Works | Goods             | Consultation<br>Services | Operating<br>Expenditures | Other             | Total 2022         |
|--|-----------------------|-------------------|--------------------------|---------------------------|-------------------|--------------------|
| Government of Georgia                            | 385,018,184           | -                 | 3,121,833                | 52,183                    | 28,209,013        | 416,401,213        |
| European Bank for Reconstruction and Development | -                     | -                 | 868,810                  | -                         | 564,360           | 1,433,170          |
| World Bank                                       | 52,059,442            | 39,600            | 7,982,922                | 257,796                   | -                 | 60,339,760         |
| Swedish International Development Agency         | 1,181,758             | -                 | -                        | -                         | -                 | 1,181,758          |
| European Investment Bank                         | 8,153,739             | -                 | 2,154,132                | -                         | -                 | 10,307,871         |
| Asian Development Bank                           | 51,804,673            | -                 | 3,717,085                | 209,733                   | 223,660           | 55,955,151         |
| MDF  | 1,341,290             | -                 | 60,275                   | -                         | 367,825           | 1,769,390          |
| Nordic Environment Finance Corporation           | 1,467,272             | -                 | -                        | -                         | -                 | 1,467,272          |
| Council of Europe Development Bank               | 23,512,711            | -                 | 1,704,886                | -                         | -                 | 25,217,597         |
| Municipalities                                   | 5,979,361             | -                 | -                        | -                         | -                 | 5,979,361          |
| <b>Total Funds used</b>                          | <b>530,518,430</b>    | <b>39,600</b>     | <b>19,609,943</b>        | <b>519,712</b>            | <b>29,364,858</b> | <b>580,052,543</b> |
|  | Construction<br>Works | Goods             | Consultation<br>Services | Operating<br>Expenditures | Other             | Total 2021         |
| Government of Georgia                            | 329,385,962           | 341,296           | 5,755,256                | 118,705                   | 7,192,696         | 342,793,915        |
| European Bank for Reconstruction and Development | -                     | 33,681,469        | -                        | -                         | (41)              | 33,681,428         |
| World Bank                                       | 13,197,931            | 452,304           | 9,276,281                | 550,980                   | (17,811)          | 23,459,685         |
| European Investment Bank                         | 12,807,980            | -                 | 2,128,024                | -                         | -                 | 14,936,004         |
| Asian Development Bank                           | 10,733,107            | 762,410           | 912,539                  | 44,252                    | 25,798            | 12,478,106         |
| MDF  | 8,691,455             | -                 | 85,873                   | 2,853                     | (992)             | 8,779,189          |
| Nordic Environment Finance Corporation           | 6,263,314             | -                 | -                        | -                         | -                 | 6,263,314          |
| Government of France                             | -                     | 5,764,546         | -                        | -                         | -                 | 5,764,546          |
| Council of Europe Development Bank               | 3,315,891             | -                 | 1,338,269                | -                         | -                 | 4,654,160          |
| Municipalities                                   | 2,080,809             | -                 | -                        | -                         | -                 | 2,080,809          |
| <b>Total Funds used</b>                          | <b>386,476,449</b>    | <b>41,002,025</b> | <b>19,496,242</b>        | <b>716,790</b>            | <b>7,199,650</b>  | <b>454,891,156</b> |

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**18. RELATED PARTIES TRANSACTION AND OUTSTANDING BALANCES**

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be affected on the same terms and conditions as transactions between unrelated parties.

The Fund is owned by the State of Georgia. It has transactions with entities owned by the state of Georgia, referred as government related entities below. These transactions are conducted in the ordinary course of the fund's business on terms comparable to those with other entities that are non-government related entities.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Fund had the following balances and transactions with related parties:

|                                 | <b>2022</b>                         |  | <b>2021</b>                         |  |
|---------------------------------|-------------------------------------|--|-------------------------------------|--|
|                                 | <b>Related party<br/>(balances)</b> | <b>Total<br/>categoryas<br/>per the<br/>financial<br/>statements<br/>(caption)</b> | <b>Related party<br/>(balances)</b> | <b>Total<br/>categoryas<br/>per the<br/>financial<br/>statements<br/>(caption)</b> |
| Other loans disbursed           | 183,558                             | 183,558  | 40,548,871                          | 40,548,871   |
| Loans to municipalities         | 36,893,810                          | 36,893,810   | 25,274,928                          | 25,274,928   |
| Receivables from municipalities | 80,194,053                          | 80,194,053   | 94,770,972                          | 94,770,972   |
| Receivables and advances        | 7,015,487                           | 230,728,695  | 11,594,678                          | 150,040,528  |
| Cash and cash equivalents       | 76,657,630                          | 83,465,537   | 57,537,252                          | 109,366,040  |
| Long-term debt                  | 90,369,423                          | 90,369,423   | 94,502,730                          | 94,502,730   |
| Trade and other payables        | 48,934,381                          | 96,696,003   | 62,914,464                          | 92,588,333   |

The remuneration of directors and other members of key management, it total four staff members were as follows:

|                                       | <b>2022</b>                       |   | <b>2021</b>                       |   |
|---------------------------------------|-----------------------------------|---|-----------------------------------|---|
|                                       | <b>Related party<br/>balances</b> | <b>Total<br/>category<br/>as per the<br/>financial<br/>statements<br/>caption</b> | <b>Related party<br/>balances</b> | <b>Total<br/>category<br/>as per the<br/>financial<br/>statements<br/>caption</b> |
| Key management personnel compensation | 309,342                           | 7,147,857   | 336,443                           | 6,289,721   |

Included in the statement of profit or loss for the years ended 31 December 2022 and 31 December 2021 are the following amounts which were recognised in transactions with related parties:

|   | <b>2022</b>                           |  | <b>2021</b>                           |  |
|---|---------------------------------------|--|---------------------------------------|--|
|   | <b>Related party<br/>transactions</b> | <b>Total<br/>categoryas<br/>per the<br/>financial<br/>statements<br/>caption</b> | <b>Related party<br/>transactions</b> | <b>Total<br/>categoryas<br/>per the<br/>financial<br/>statements<br/>caption</b> |
| Funds received (note 17)                    | 934,714                               | 712,644,270  | 2,311,836                             | 485,679,379  |
| Funds used (note 17)                        | 21,722,637                            | 614,013,150  | 10,859,997                            | 454,891,156  |
| Finance income from loans to municipalities | 2,669,160                             | 2,669,160  | 2,852,995                             | 2,852,995  |
| Other interest income                       | 334,006                               | 334,006  | 1,816,430                             | 1,816,430  |

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**19. FINANCIAL RISK MANAGEMENT**

The Fund's principal financial instruments comprise loans to municipalities and other loans, bank balances, cash and cash equivalents, accounts and other payables and long-term debt. The main purpose of these financial instruments is to ensure financing for the fund's operations.

**Financial risks**

The main financial risks arising from the Fund's financial instruments are foreign currency risk, interest rate risk, liquidity risk, and credit risk.

**Foreign currency risk**

The currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Fund undertakes certain transactions denominated in foreign currencies, including the receipt of financing from International financial institutions for the implementation of projects. The financing is, in most cases, received in USD and EUR. The funds received are converted in GEL on periodic basis and the fluctuation in exchange rates between the date of funds received and converted results in foreign exchange gain/losses. The Fund does not use any derivatives to manage foreign currency risk exposure.

The Fund's exposure to foreign currency exchange rate risk is presented in the tables below:

|                                    | 2022               |                   |                   |                    |
|------------------------------------|--------------------|-------------------|-------------------|--------------------|
|                                    | GEL                | USD               | EUR               | Total              |
| <b>FINANCIAL ASSETS</b>            |                    |                   |                   |                    |
| Cash and cash equivalents          | 17,894,278         | 8,552,129         | 57,019,130        | 83,465,537         |
| Deposits in banks                  | 168,526,758        | -                 | -                 | 168,526,758        |
| Receivables and advances           | 7,576,223          | -                 | -                 | 7,576,223          |
| Loans to municipalities            | 36,893,810         | -                 | -                 | 36,893,810         |
| Receivables from municipalities    | 80,194,053         | -                 | -                 | 80,194,053         |
| Other loans disbursed              | 183,558            | -                 | -                 | 183,558            |
| <b>TOTAL FINANCIAL ASSETS</b>      | <b>311,268,680</b> | <b>8,552,129</b>  | <b>57,019,130</b> | <b>376,839,939</b> |
| <b>FINANCIAL LIABILITIES</b>       |                    |                   |                   |                    |
| Trade and other payables           | 71,984,553         | 118,458           | 416,850           | 72,519,861         |
| Long-term debt                     | 90,369,423         | -                 | -                 | 90,369,423         |
| <b>TOTAL FINANCIAL LIABILITIES</b> | <b>162,353,976</b> | <b>118,458</b>    | <b>416,850</b>    | <b>162,889,284</b> |
| <b>OPEN POSITION</b>               | <b>148,914,704</b> | <b>8,433,671</b>  | <b>56,602,280</b> |                    |
|                                    | 2021               |                   |                   |                    |
|                                    | GEL                | USD               | EUR               | Total              |
| <b>FINANCIAL ASSETS</b>            |                    |                   |                   |                    |
| Cash and cash equivalents          | 54,471,841         | 16,578,649        | 38,315,550        | 109,366,040        |
| Deposits in banks                  | 79,365,101         | -                 | -                 | 79,365,101         |
| Receivables and advances           | 11,159,604         | -                 | -                 | 11,159,604         |
| Loans to municipalities            | 25,274,928         | -                 | -                 | 25,274,928         |
| Receivables from municipalities    | 94,770,972         | -                 | -                 | 94,770,972         |
| Other loans disbursed              | 40,548,871         | -                 | -                 | 40,548,871         |
| <b>TOTAL FINANCIAL ASSETS</b>      | <b>305,591,317</b> | <b>16,578,649</b> | <b>38,315,550</b> | <b>360,485,516</b> |
| <b>FINANCIAL LIABILITIES</b>       |                    |                   |                   |                    |
| Trade and other payables           | 77,171,610         | 2,284,770         | 228,799           | 79,685,179         |
| Long-term debt                     | 94,502,730         | -                 | -                 | 94,502,730         |
| <b>TOTAL FINANCIAL LIABILITIES</b> | <b>171,674,340</b> | <b>2,284,770</b>  | <b>228,799</b>    | <b>174,187,909</b> |
| <b>OPEN POSITION</b>               | <b>133,916,977</b> | <b>14,293,879</b> | <b>38,086,751</b> |                    |

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**19. FINANCIAL RISK MANAGEMENT (CONTINUED)**

The table below details the Fund's sensitivity to strengthening/weakening of functional currency against foreign currencies by 20% as at 31 December 2022 and 31 December 2021. The analysis was applied to monetary items at the balance sheet date denominated in USD and EUR.

|                                 | 2022              |                   |                   |                   |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                 | USD/GEL<br>(+20%) | USD/GEL<br>(-20%) | EUR/GEL<br>(+20%) | EUR/GEL<br>(-20%) |
| <b>Profit/(loss) before tax</b> | 1,686,734         | (1,686,734)       | 11,320,456        | (11,320,456)      |
|                                 | 2021              |                   |                   |                   |
|                                 | USD/GEL<br>(+20%) | USD/GEL<br>(-20%) | EUR/GEL<br>(+20%) | EUR/GEL<br>(-20%) |
| <b>Profit/(loss) before tax</b> | 2,858,776         | (2,858,776)       | 7,617,350         | (7,617,350)       |

**Interest rate risk**

Interest-bearing financial assets and liabilities of the Fund have fixed interest rate. In the borrowing and loans disbursed transaction, which are disbursed at refinancing rate the Fund is acting as an agent. Therefore, Fund is not exposed to any interest rate risk.

**Liquidity risk**

Liquidity risk refers to the availability of sufficient funds to enable repayment of financial commitments as they actually fall due.

The table below presents the cash flows payable by the Fund and to the Fund under non - derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flow.

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## 19. FINANCIAL RISK MANAGEMENT (CONTINUED)

|                                    | <b>2022</b>           |                      |                     |                   |                     |                    |
|------------------------------------|-----------------------|----------------------|---------------------|-------------------|---------------------|--------------------|
|                                    | <b>Carrying value</b> | <b>Up to 1 month</b> | <b>Up to 1 year</b> | <b>1-5 years</b>  | <b>Over 5 years</b> | <b>Total</b>       |
| <b>Financial Liabilities</b>       |                       |                      |                     |                   |                     |                    |
| Long-term debt                     | 90,369,423            | -                    | 10,158,505          | 79,894,438        | 35,933,159          | <b>125,986,103</b> |
| Trade and other payables           | 72,519,861            | 3,770,601            | 60,039,256          | 6,486,287         | 2,223,713           | <b>72,519,861</b>  |
| <b>Total financial liabilities</b> | <b>162,889,284</b>    | <b>3,770,601</b>     | <b>70,197,761</b>   | <b>86,380,725</b> | <b>38,156,872</b>   | <b>198,505,964</b> |
|                                    |                       |                      |                     |                   |                     |                    |
|                                    | <b>2021</b>           |                      |                     |                   |                     |                    |
|                                    | <b>Carrying value</b> | <b>Up to 1 month</b> | <b>Up to 1 year</b> | <b>1-5 years</b>  | <b>Over 5 years</b> | <b>Total</b>       |
| <b>Financial Liabilities</b>       |                       |                      |                     |                   |                     |                    |
| Long-term debt                     | 94,502,730            | -                    | 10,623,134          | 83,548,642        | 37,576,666          | <b>131,748,442</b> |
| Trade and other payables           | 79,685,183            | 4,143,156            | 65,971,433          | 7,127,164         | 2,443,427           | <b>79,685,180</b>  |
| <b>Total financial liabilities</b> | <b>174,187,913</b>    | <b>4,143,156</b>     | <b>76,594,567</b>   | <b>90,675,806</b> | <b>40,020,093</b>   | <b>211,433,622</b> |

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
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**19. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Credit risk**

Credit risk is the risk that a customer may default or not meet its obligations to the Fund on a timely basis, leading to financial losses to the Fund. The Fund is exposed to credit risk from its operating activities (primarily loans to municipalities, deposits with banks and advances and receivables) and from its financing activities, including accounts with banks and related parties and other financial instruments.

The credit risk on cash and cash equivalents is limited because the counterparty is either state treasury or banks with positive credit ratings.

For collectively assessed exposures the Fund measures the loss allowance for its financial assets at an amount equal to the lifetime ECL. The expected credit losses on financial assets are estimated by reference to past default experience of the counterparty, an analysis of the counterparty's maturity days and bank guarantees against the outstanding balance. The expected credit loss on financial assets assessed collectively are estimated by multiplying the probability of default by loss given default and by exposure at default. For approach of PD estimations, the Fund uses the research produced by the rating agencies.

**Fair value**

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- (i) level one is measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,
- (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and
- (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety. None of the Entity's financial assets and liabilities measured at fair value. Based on the Managements assessment using level 3 inputs, the fair value of the financial assets and liabilities approximates to their carrying values.

**Financial assets carried at amortised cost**

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

**Financial liabilities carried at amortised cost**

The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Management of the Fund considers that the carrying amounts of financial liabilities recorded in the financial statements approximate to their fair values.

**20. COMMITMENTS AND CONTINGENCIES**

**Commitments**

The Fund receives financing from donors for the completion of different projects. The fund is committed to use the proceeds received for the purposes defined in loan, credit or grant agreements. Total amount of the commitment for the year ended 2022 amounts to the balance of Source of Financing in the Fund's financial statements.

**Legal proceedings**

From time to time and in the normal course of business, claims against the Fund may be received. At a different point of time due to inappropriate application of the service agreement terms, the Fund has penalised several counterparties and recovered the damages and penalties charged to them, through the bank guarantees presented by service providers as a pledge for proper completion of the work. As a result, the Fund has been sued by several contractors to reimburse the recovered amount of damage and penalty charges. For the year end the Management has estimated the probability of winning each court case and recorded additional provision for potential losses of court cases in the amount of GEL 1,735,219, recorded in administrative expenses (note 6). The recognised provision reflects the Managements best estimate of the most likely outcome.

## **20. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

### ***Taxes***

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of government bodies, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the 3 subsequent calendar years, however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Georgia that are substantially more significant than in many 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 if the authorities were successful in enforcing their own interpretations, the effect on these financial statements could be significant.

### ***Operating environment***

The Fund's principal business activities are within Georgia. Georgia displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by Entities operating in Georgia.

The future economic direction of Georgia is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Georgian financial and corporate sectors.

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

Management is unable to predict all developments which could have an impact on the Georgian economy and consequently what effect, if any, they could have on the future financial position of the Fund. Management believes it is taking all the necessary measures to support the sustainability and development of the Funds' operations.

## **21. EVENTS AFTER THE REPORTING PERIOD**

The Municipal Development Fund of Georgia in 2023 started the implementation of the 3 new programs under Government Financing with total estimated budget GEL 325 million: 1) Events supporting the 2025 European Winter Youth Olympic Festival 2) Construction-rehabilitation of preschool institutions 3) Measures to improve the tourist infrastructure

In addition to mention above the two new programs were launched under KFW and EBRD financing: Program for energy Efficiency in Public Buildings (KFW) and Green Investments in Buildings project (EBRD).

## **22. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the Board of Directors and authorised for issue on 30 June 2023.