Georgian Leasing Company LLC

Consolidated financial statements

For the year ended 31 December 2016
together with the independent auditor's report

Contents

Independent auditor's report

Notes to the consolidated financial statements

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Independent auditor's report

To the Participant of Georgian Leasing Company LLC

Opinion

We have audited the consolidated financial statements of Georgian Leasing Company and its subsidiary (the Company), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and its financial performance and its cash flows for the year then 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 *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the 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 the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

- *Allowance for impairment of financial lease receivables*

The allowance for impairment of finance lease receivables is estimated by the management through the application of judgement and use of assumptions.

The allowance for impairment of finance lease receivables is calculated on collective and individual basis. Collective assessment is determined based on the statistical data of monthly write-offs made by the Company during the past years. Individual assessment is based on the discounted cash flow analysis which involves a high level of subjectivity and reliance on the management assumptions and assessment of collaterals.

As a consequence, allowance for impairment for financial lease receivables was considered a key audit matter during the audit.

Our audit procedures included the assessment of controls over the approval, recording and monitoring of finance lease receivables and respective provisioning process, and evaluating the methodology, inputs and assumptions used by the Company in calculating collectively and individually assessed receivables.

The Company's disclosures on allowance for impairment of financial lease receivables are made in Note 8 of the consolidated financial statements.

- *Existence and valuation of assets held for leasing purposes*

Assets held for leasing purposes are assets that the Company owns before commencement of a finance lease and repossessed assets from non-performing lessees which the Company intends to lease out. As of 31 December 2016, assets held for leasing purposes amount GEL 11,156,115 (22% of total assets), out of which 90 items amounting GEL 6,389,520 are not located in the Company's warehouse and are held by former lessees. The Company is in the process of negotiations with the former lessees on physical repossession of such assets. Management uses judgment to determine whether or not such legally repossessed assets should be written down to net realisable value due to the uncertainty of the assets' physical repossession.

The net realisable value of assets held for leasing purposes is determined by the external independent expert through the application of valuation techniques which involves use of assumptions and judgements.

Due to the significance of assets held for leasing purposes and the related estimation uncertainty, this matter was considered to be one of most significance in our audit.

Our audit procedures included the assessment of the competence and relevant experience of the external independent expert engaged by management. With the assistance of our own valuation specialists, we assessed the expert's valuation methodologies and assumptions by comparing source data with market data. We analysed the circumstances and events that were triggering for write-off to net realisable value. We analysed the history of physical repossession of the Company's assets through the National Bureau of Enforcement and ensured that amount of the repossessed assets recognised as of 31 December 2016 is in line with statistical data on repossession. We attended physical inventory counts at key locations, including the location of former lessees.

The Company's disclosures on assets held for leasing purposes are made in Note 9 of the consolidated financial statements.

Responsibilities of management and the Participant for the financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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

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auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Participant with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

Ruslan Khoroshvili

On behalf of EY Georgia LLC

29 March 2017

Consolidated statement of financial position

As at 31 December 2016

(Amounts in Georgian lari)

	Notes	2016	2015
Assets			
Cash and cash equivalents	6	675,959	2,313,617
Investment securities: available for sale	7	41,090	1,829,226
Finance lease receivables	8	32,611,586	26,272,944
Assets held for leasing purposes	9	11,156,115	8,857,858
Prepayments for assets held for leasing purposes		3,258,569	1,391,145
Current income tax assets		632,468	608,522
Deferred income tax assets	10	-	725,765
Investment property		2,488,301	2,488,301
Other assets	11	294,558	826,864
Total assets		51,158,646	45,314,242
Liabilities			
Loans payable	12	17,728,932	15,815,446
Debt securities issued	13	26,904,767	22,695,617
Advances from customers		2,078,621	1,903,559
VAT and other taxes payable		434,203	-
Other liabilities		449,386	216,628
Total liabilities		47,595,909	40,631,250
Equity			
Charter capital		3,180,000	3,180,000
Additional paid-in capital		2,472,628	2,472,628
(Accumulated losses) / retained earnings		(2,104,062)	(974,528)
Other reserve		14,171	4,892
Total equity	14	3,562,737	4,682,992
Total liabilities and equity		51,158,646	45,314,242

Signed and authorized for release on behalf of the management:

Eldar Akhvlediani Chief Executive Officer

Madona Baidoshvili Senior Accountant

29 March 2017

The accompanying notes from pages 5 to 27 are an integral part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2016

(Amounts in Georgian lari)

	Notes	*2016*	*2015*
Interest income			
Finance income from leases		6,585,537	5,751,676
Investment securities: available-for-sale		18,880	106,653
Bank deposits		–	69,379
Cash and cash equivalents		71,470	144,113
Interest expense			
Loans payable		(1,499,596)	(1,238,888)
Debt securities issued		(2,265,557)	(2,106,028)
Net interest income		2,910,734	2,726,905
Impairment charge for finance lease receivables	8	(458,806)	(474,070)
Net interest income after impairment charge for finance lease receivables		2,451,928	2,252,835
Income from penalties on finance lease receivables	8	984,930	987,290
Rent income from investment property		168,766	168,766
Net loss on revaluation of investment property		–	(198,736)
Net loss from foreign currency translation		(408,630)	(2,170,510)
Other income	15	382,972	580,147
Operating income		3,579,966	1,619,792
Other general and administrative expenses	16	(2,191,109)	(2,512,059)
Salaries and other employee benefits		(1,042,611)	(404,328)
Write down of assets held for leasing purposes to net realisable value		(749,153)	(3,142,972)
Operating expenses		(3,982,873)	(6,059,359)
Loss before income tax expense		(402,907)	(4,439,567)
Income tax (expense)/benefit	10	(726,627)	337,171
Net loss for the year		(1,129,534)	(4,102,396)
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Unrealized gains on investment securities available-for-sale		14,171	5,755
Realized gains on investment securities available-for-sale		(5,755)	
Income tax effect		863	(863)
Other comprehensive income for the year, net of tax		9,279	4,892
Total comprehensive loss for the year		(1,120,255)	(4,097,504)

The accompanying notes from pages 5 to 27 are an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2016

(Amounts in Georgian lari)

	Charter capital	*Additional paid-in capital*	*Other reserve*	*Retained earnings*	*Total equity*
31 December 2014	3,180,000	2,546,141	–	3,127,868	8,854,009
Net loss for the period	–	–	–	(4,102,396)	(4,102,396)
Other comprehensive income for the year, net of tax	–	–	4,892	–	4,892
Equity distribution	–	(73,513)	–	–	(73,513)
31 December 2015	3,180,000	2,472,628	4,892	(974,528)	4,682,992
Net loss for the period	–	–	–	(1,129,534)	(1,129,534)
Other comprehensive income for the year, net of tax	–	–	9,279	–	9,279
31 December 2016	3,180,000	2,472,628	14,171	(2,104,062)	3,562,737

The accompanying notes from pages 5 to 27 are an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2016

(Amounts in Georgian lari)

	Notes	2016	2015
Cash flows from operating activities			
Interest income received		6,312,040	6,095,067
Other income received		1,542,398	1,694,958
Interest paid		(3,574,872)	(2,784,292)
Other general and administrative expenses paid		(1,698,008)	(2,063,171)
Salaries and other employee benefits paid		(1,042,610)	(514,453)
Cash flows from operating activities before changes in operating assets and liabilities		1,538,948	2,428,109
(Increase) decrease in operating assets			
Finance lease receivables		(4,210,149)	2,844,458
Assets held for leasing purposes		(2,590,674)	(5,525,262)
Prepayments for assets held for leasing purposes		(1,181,364)	684,504
Other assets		(149,782)	(395,125)
Increase (decrease) in operating liabilities			
Advances from customers		175,058	497,878
VAT and other taxes payables		408,749	121,213
Other liabilities		(473,656)	(9,110)
Net cash used in operating activities before income taxes		(6,482,870)	646,665
Corporate income taxes paid		-	(297,606)
Net cash used in operating activities		(6,482,870)	349,059
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		–	12,582
Bank deposits withdrawn		–	2,253,935
Sale of investment securities		1,923,721	–
Purchase of investment securities		(59,330)	(1,797,213)
Net cash used in investing activities		1,864,391	469,304
Cash flows from financing activities			
Debt securities issued		1,635,994	–
Debt securities purchased		–	(1,162,844)
Repayment of borrowings		–	(4,526,558)
Receipt of borrowings		1,475,403	–
Net cash from financing activities		3,111,397	(5,689,402)
Effect of exchange rate changes in cash and cash equivalents		(130,576)	1,241,339
Net decrease in cash and cash equivalents		(1,637,658)	(3,629,700)
Cash and cash equivalents, beginning	6	2,313,617	5,943,317
Cash and cash equivalents, ending	6	675,959	2,313,617

The accompanying notes from pages 5 to 27 are an integral part of these financial statements.

(Amounts in Georgian lari)

1. Principal activities

Georgian Leasing Company LLC (the "Company" or the "GLC") was established on 29 October 2001 in Georgia. Principal business activity is providing finance leases to companies and individuals within Georgia. On 31 April 2015 the Group purchased 100% share in Prime Leasing LLC from JSC Privat Bank Georgia, entity under common control, for a consideration of GEL 2,000.

As of 31 December 2016 and 31 December 2015 GLC and its subsidiary (collectively referred to as the "Group") are wholly-owned by JSC BG Financial (hereinafter "the Parent"), which in turn is owned by JSC BGEO Group. The ultimate parent and controlling party of the Group as of 31 December 2016 and 31 December 2015 is BGEO Group plc ("BGEO"), UK registered company premium listed on London Stock Exchange.

The Group's registered office is 3/5 Tatisvhili Street, Tbilisi, Georgia.

As of 31 December 2016 and 31 December 2015 the Group consists of the Company and its 100% owned subsidiary – Prime Leasing LLC – which provide lease services in Georgia.

2. Basis of preparation

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

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The Group is organized into single operating segment – providing finance leases.

These financial statements are presented in Georgian lari ("GEL"), unless otherwise indicated.

Reclassifications

During the year ended 31 December 2016 the Group reconsidered presentation of its consolidated statement of financial position accounts for the purpose of more accurate presentation of operating tax receivables and payables. The presentation of comparative figures has been adjusted to confirm to the presentation of the current period amounts:

Consolidated statement of financial position	*As previously reported*	*Reclassification*	*As reclassified*
Other assets	1,026,780	(199,916)	826,864
VAT and other taxes payable	199,916	(199,916)	–

3. Going concern

For the year ended 31 December 2016 the Group incurred net loss of GEL 1,129,534 (2015: GEL 4,102,396).

Notwithstanding these facts management assesses that the Group has the ability to meet all of its liabilities as they become due for the following reasons:

- Net loss incurred by the Group is mainly caused by non-cash operations: increase of net loss from foreign currency translations, write down of assets held for leasing purposes to net realizable value and write off of deferred tax assets due to changes in Georgian tax legislation (Note 10). The Group has positive cash flow from operating activities for the year ended 31 December 2016.
- The Group's management is currently in the process of negotiating with the parent receiving an additional contribution to the capital of the Company.
- The management have negotiated with the parent – JSC BGEO Group – to provide adequate funds to the Group to enable it to continue normal operations on ongoing basis, if necessary. The parent has both the ability and intention to implement the financial support to the Group in terms of necessity.

(Amounts in Georgian lari)

3. Going concern (continued)

As of now, all the operations are based on the assumption that the business will be continued; there is no material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements are prepared on the basis that the Group will continue to be a going concern and will realize its assets and discharge its liabilities in the ordinary course of business.

4. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in consolidated profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to consolidated profit or loss.

Business combinations

Business combinations, including common control business combinations, are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Acquisition costs incurred are expensed. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

(Amounts in Georgian lari)

4. Summary of significant accounting policies (continued)

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, or loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in the consolidated profit or loss when the investments are impaired, as well as through the amortization process. Gains and losses are recognized in the consolidated profit or loss statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any categories: financial assets at fair value through profit or loss, held to maturity investments and loans and receivables. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated profit or loss. However, interest calculated using the effective interest method is recognised in the consolidated profit or loss.

Cash and cash equivalents

Cash and short-term deposits in the consolidated statement of financial position comprise cash on hand, current accounts and short-term deposits with an initial contractual maturity of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Finance lease receivables and finance lease income recognition

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As of this date:

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

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

Upon commencement of a finance lease, the Group recognizes the net investment in the leases, which is the minimum lease payments receivable discounted at the interest rate implicit in the lease. The difference between the gross investment and its present value is recorded as unearned finance lease income.

Finance lease income is recognized based on a pattern reflecting a constant periodic rate of return on the net investment in respect of the finance lease. Initial direct costs are included in the initial measurement of the lease receivables.

(Amounts in Georgian lari)

4. Summary of significant accounting policies (continued)

Impairment of financial assets, including finance lease receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant by size or risk, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of profit or loss.

Finance lease receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a finance lease receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of collateral characteristics and past-due status.

Allowance for financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience.

Renegotiated finance lease receivables

Where possible, the Group seeks to restructure finance lease receivables rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new finance lease receivables conditions.

(Amounts in Georgian lari)

4. Summary of significant accounting policies (continued)

Renegotiated finance lease receivables (continued)

The accounting treatment of such restructuring is as follows:

- If the currency of the finance lease receivable has been changed the old one is derecognized and the new finance lease receivable is recognized.
- If the finance lease receivable restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for derecognition of financial liabilities described below.
- If the finance lease receivable restructuring is due to the financial difficulties of the borrower and the lease is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case lease is not impaired after restructuring the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the lease is no longer considered past due. Management continuously reviews renegotiated leases to ensure that all criteria are met and that future payments are likely to occur. The lease continues to be subject to an individual or collective impairment assessment, calculated using the lease's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include loans payable and debt securities issued. These are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated profit or loss when the borrowings are derecognized as well as through the amortization process.

(Amounts in Georgian lari)

4. Summary of significant accounting policies (continued)

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Taxation

The current income tax expense is calculated in accordance with the regulations of Georgia.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Starting from 1 January 2017 deferred tax assets and liabilities will be realized and settled at 0% tax rate, respectively. Please refer to Note 10.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other general and administrative expenses.

Investment property

Investment property of the Group represents an office building held to earn rental income. Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period.

Earned rental income is recorded in the consolidated profit or loss as rent income from investment property. Gains or losses arising from changes in fair values of investment properties are included in the consolidated statement of profit or loss.

Charter capital

The amount of Group's authorised charter capital is defined by the Group's Charter. The changes in the Group's Charter (including changes in charter capital, ownership, etc.) shall be made only based on the decision of the Group's participant. The authorised capital is recognised as charter capital in the equity of the Group to the extent that it was contributed by the participant of the Group.

Assets held for leasing purposes

Assets held for the leasing purposes are those assets that the Group owns during a short period of time between acquisition of the asset and its transfer to lessees at a commencement of a finance lease, repossessed assets from non-performing lessees pending further lease or sale, and legally repossessed assets from non-performing lessees pending physical repossession.

Assets held for leasing purposes are measured at lower of cost and net realizable value at each reporting date.

Cost of assets held for leasing purposes includes:

- Cost of purchasing the asset and other related capitalized costs incurred by the Group prior to transfer to a lessee in case of acquired assets;
- Fair value of consideration given at the date of classifying finance lease receivable as non-performing in case of repossessed assets.

(Amounts in Georgian lari)

4. Summary of significant accounting policies (continued)

Assets held for leasing purposes (continued)

The net realizable value is the estimated selling price in the ordinary course of business less estimated costs to sell.

All repossessed assets held for leasing are recognized upon passing of a legal title to the Group. Management uses judgment to determine whether or not a legally repossessed asset should be written down to net realisable value due to uncertainties with its physical repossession. Management analyses each case of legally repossessed asset separately and writes off assets where physical repossession is not probable.

Fair value measurements

The Group measures investment property and investment securities available for sale at fair value at the end of each reporting period. Also, fair values of financial instruments measured at amortised cost are disclosed in the Note 20.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Group must be able to access the principal or the most advantageous market at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Income and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognized:

Interest and similar income and expense

For all financial instruments measured at amortized cost, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

(Amounts in Georgian lari)

4. Summary of significant accounting policies (continued)

Functional and reporting currencies and foreign currency translation

The financial statements are presented in Georgian lari, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Georgian lari at official National Bank of Georgia ("NBG") exchange rates at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated profit or loss as net loss from foreign currency translation.

The official NBG exchange rates at 31 December 2016 and 31 December 2015 are disclosed below:

	31 December 2016	*31 December 2015*
GEL to USD	2.6468	2.3949
GEL to EUR	2.7940	2.6169

Changes in accounting policies and disclosures

No new or revise IFRS during the year had significant impact on the Group's financial position or performance.

Standards issued but not yet effective

Up to the date of approval of the financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted. New standards relevant to the Group's activities that may have any impact on the Group, or the impacts of which are currently being assessed, are as follows:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of IFRS 9 will have an effect on the classification, measurement and impairment of the Group's financial assets, but no significant impact on the classification and measurement of the Group's financial liabilities. The Group plans to adopt the new standard from the effective date and continues to assess IFRS 9 impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group is going to adopt the standard starting from 1 January 2017. The Group does not expect any significant impact on its financial statements.

(Amounts in Georgian lari)

4. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

The amendments will have no effect on the Group's financial statements.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's *Disclosure Initiative* and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. The Group will adopt the amendment from its effective date. These amendments are not expected to have any impact on the Group.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

(Amounts in Georgian lari)

4. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group does not anticipate early adoption of IFRS 16 and is currently assessing the impact of IFRS 16 on its financial statements.

5. Significant accounting judgments and estimates

In the process of applying the Group's accounting policies, management uses its judgment and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Allowance for impairment of finance lease receivables

The Group regularly reviews its finance lease receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a lessee is in financial difficulties and there are few available sources of historical data relating to similar borrowers. The Group estimates changes in future cash flows based on the observable data indicating how and when the collateral under finance lease can be realized. Management uses estimates based on historical loss experience for assets with similar characteristics.

Information about allowance for impairment of finance lease receivables as of 31 December 2016 and 31 December 2015 is presented in Note 8.

Measurement of fair value of investment property

The fair value of investment property is determined by real estate valuation experts using recognised valuation techniques which are consistent with the principles of IFRS 13. The last valuation of investment property was conducted by independent appraiser as at 31 December 2015. Fair value of the Group's investment property was determined by applying income approach based on discounted cash flow method, supported by the terms of any existing lease and other contracts and, when available, by external evidence such as current market rents for similar properties in a comparable location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Subsequently, the Group performed the assessment of investment property at their own.

(Amounts in Georgian lari)

5. Significant accounting judgments and estimates (continued)

Estimation of net realisable value for assets held for leasing purposes

In order to determine lower of cost and net realisable value of assets held for leasing purposes, net realisable value is determined by independent valuator at each reporting date. The method used represent market approach which is based on comparison of the subject assets to comparable assets that has been entered on the sale.

Information about assets held for leasing purposes as of 31 December 2016 and 31 December 2015 is presented in Note 9.

6. Cash and cash equivalents

Cash and cash equivalents comprised the following as of 31 December:

	2016	*2015*
Cash on hand	1,909	272
Time deposits with contractual maturities of up to 90 days	–	1,637,397
Current accounts with the entity under common control	674,050	675,948
Cash and cash equivalents	675,959	2,313,617

7. Investment securities: available-for-sale

As of 31 December 2015 investment securities available-for-sale comprised of bonds of entities under common control in the total amount of GEL 1,829,226 (USD 763,801).

In February 2016 the Group sold the investment securities at a price of GEL 1,923,721 (USD 772,827) which included the carrying value of the investment securities amounting to GEL 1,914,033 (USD 768,935) and the gain from the selling at a premium amounting to GEL 9,688 (USD 3,892).

8. Finance lease receivables

	Due within 1 year 31 December 2016	*Due between 1 to 5 years 31 December 2016*	*Total 31 December 2016*
Minimum lease payments receivable	21,184,889	21,819,367	43,004,256
Less: unearned finance lease income	(777,449)	(8,671,043)	(9,448,493)
Finance lease receivables	20,407,440	13,148,324	33,555,764
Less: impairment allowance for finance lease receivables	(593,759)	(350,419)	(944,178)
Net finance lease receivables	19,813,681	12,797,905	32,611,586

	Due within 1 year 31 December 2015	*Due between 1 to 5 years 31 December 2015*	*Total 31 December 2015*
Minimum lease payments receivable	17,705,540	16,183,919	33,889,459
Less: unearned finance lease income	(1,581,640)	(5,236,405)	(6,818,045)
Finance lease receivables	16,123,900	10,947,514	27,071,414
Less: impairment allowance for finance lease receivables	(488,471)	(309,999)	(798,470)
Net finance lease receivables	15,635,429	10,637,515	26,272,944

(Amounts in Georgian lari)

8. Finance lease receivables (continued)

As of 31 December 2016, concentration of finance lease receivables to 5 largest lessees comprised GEL 5,168,135 (2015: GEL 10,735,418) which is 16% (2015: 41%) of total finance lease receivables, and finance lease income received from them comprised GEL 741,662 (2015: GEL 1,605,996), which is 11% (2015: 28%) of total finance lease income.

Penalties on finance lease receivables are mainly accrued for overdue payments. The Group recognises penalty income only when received.

At the end of the lease term, the ownership of the leased assets is transferred to the lessees. Minimum lease payments receivables after 31 December 2016 and 2015 are payable to the Group in the following currencies:

	31 December 2016	*31 December 2015*
USD	31,626,719	21,680,109
EUR	10,196,126	8,343,575
GEL	1,181,411	3,865,775
Minimum lease payment receivables	43,004,256	33,889,459

The types of assets that the Group leases out at 31 December 2016 and 2015 can be aggregated into the following categories:

	31 December 2016		*31 December 2015*	
	Amount	*Number of projects*	*Amount*	*Number of projects*
Machinery & equipment	20,723,293	206	24,648,412	221
Construction equipment	9,334,678	74	3,558,574	61
Passenger cars	7,299,410	504	2,644,983	270
Transport, except passenger cars	5,646,875	72	3,037,490	155
Minimum lease payment receivables	43,004,256	856	33,889,459	707

Movements in impairment allowance for finance leases for 2016 and 2015 are as follows:

	Finance lease receivables
31 December 2014	628,260
Impairment charge	474,070
Write-offs	(303,860)
31 December 2015	798,470
Impairment charge	458,806
Write-offs	(313,098)
31 December 2016	944,178

	31 December 2016	*31 December 2015*
Collective assessment	608,308	473,488
Individual assessment	335,870	324,982
Total impairment allowance for finance leases	944,178	798,470

	2016	*2015*
Gross amount of lease receivables, individually determined to be impaired before deducting any individually assessed impairment allowance	1,500,388	1,644,801

(Amounts in Georgian lari)

9. Assets held for leasing purposes

	31 December 2016	*31 December 2015*
Assets held for leasing – repossessed	4,766,595	4,485,035
Assets held for leasing – under repossession	6,389,520	4,372,823
Assets held for leasing purposes	11,156,115	8,857,858

10. Taxation

Income tax expense comprises:

	2016	*2015*
Current income tax expense	–	25,453
Deferred tax charge/(benefit) from origination and reversal of temporary differences	726,627	(229,615)
Reassessment of 2013 current income tax	–	(132,146)
Deferred tax recognized in other comprehensive income	–	(863)
Income tax expense/(benefit)	726,627	(337,171)

Georgian legal entities must individually report taxable income and remit profit taxes thereon to the appropriate authorities. As of 31 December 2016 the tax rate for the Group's profit is 15% (2015: 15%).

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on statutory rate with actual is as follows:

	2016	*2015*
Profit before income tax expense	(402,911)	(4,439,567)
Statutory tax rate	15%	15%
Theoretical income tax benefit	(60,437)	(665,935)
Unrecognised deferred tax	(148,070)	–
Non-deductible expenses	208,507	460,910
Change in tax legislation	726,627	–
Reassessment of 2013 current income tax	–	(132,146)
Income tax expense/(benefit)	726,627	(337,171)

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments become effective from 1 January 2017 for all Georgian companies except the banks, insurance companies and microfinance organization, for which the effective date is 1 January 2019. Under the new regulation, corporate income tax will be levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia, rather than on profit earned as under the current regulation. The amount of tax payable on a dividend distribution will be calculated as 15/85 of the amount of net distribution. The companies will be able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008-2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies will not be subject to corporate income tax.

Following the enactment of the amendments, as at 31 December 2016 the Group reversed in full its deferred tax assets and liabilities based on IAS 12 *Income Taxes* requirement to measure deferred taxes at 0% tax rate applicable for undistributed profits starting from 1 January 2017.

The Group recognized income tax charge resulting from reversal of deferred tax assets and liabilities in amount of GEL 726,627 in the consolidated profit or loss for the year ended 31 December 2016.

The amendments to the Georgian tax law described above also provide for charging corporate income tax on certain transactions that are considered deemed profit distributions, e.g. some transactions at non-market prices, non-business related expenses or supply of goods and services free of charge. Taxation of such transaction is outside scope of IAS 12 *Income Taxes* and will be accounted similar to operating taxes starting from 1 January 2017. Tax law amendments related to such deemed profit distribution did not have any effect on the Group's financial statements for the year ended 31 December 2016.

(Amounts in Georgian lari)

10. Taxation (continued)

Applicable tax regulations are often unclear and few precedents have been established. This creates tax risks in Georgia, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

11. Other assets

Other assets comprise:

	31 December 2016	*31 December 2015*
Intangible assets	125,688	155,723
Commission receivables	42,123	34,534
Operating lease receivables	37,687	36,196
VAT portion of overdue lease payments	36,012	146,589
Property and equipment	34,893	38,135
Prepaid VAT and other tax assets	–	390,418
Other	18,155	25,269
Other assets	294,558	826,864

Intangible assets have finite lives and are amortized on straight-line basis over the useful economic lives of 10 years.

Gross carrying value of intangible assets as of 31 December 2016 and 31 December 2015 comprise GEL 292,834. Accumulated amortization as of 31 December 2016 amounts to GEL 137,111 (2015: GEL 107,159). The accrual of amortization charge for 2016 attributed to the change in the gross carrying value and accumulated amortization during 2016.

12. Loans payable

	31 December 2016	*31 December 2015*
Amounts due to local banks	17,728,932	2,346,097
Amounts due to international finance company	–	13,178,592
Amounts due to foreign banks	–	290,757
Total amounts due to credit institutions	17,728,932	15,815,446

Amounts due to local banks as of 31 December 2016 and 31 December 2015 fully comprise of loans received from the entity under common control. Amounts due to local banks as of 31 December 2016 earn interest rate of 10.00% to 11.00% (2015: Libor 3.06% to Libor 4.98%) and has remaining maturity of 1,185 to 2,461 days (2015: 450 to 1,633 days).

In 2015 the Group had payable to an international finance company with total amounting to GEL 13,178,592. The borrowings from the international finance company in the amount of GEL 13,178,592 were received upon certain lender covenants that the Group needed to maintain. At 31 December 2015 Group violated 10 (out of 16) lender covenants, and in September 2016 the loan from the International Lender was fully redeemed.

As of 31 December 2016 amounts due to local banks are secured with finance lease receivables with a carrying value of GEL 2,386,939 (2015: GEL 11,389,203) and with investment property with a carrying value of GEL 2,488,301 (2015: 0).

(Amounts in Georgian lari)

13. Debt securities issued

	31 December 2016	*31 December 2015*
Debt securities issued	26,904,767	22,695,617

In September 2014 the Group issued 3-year bonds of USD 10,000,000 on Georgian Stock Exchange. Bonds were issued at par value of USD 1,000 with fixed coupon rate of 8.75% per annum.

In 2015 the Group repurchase debt securities issued in the amount of USD 590,000 at par value.

In April 2016 the Group reissues previously repurchased securities at par value amounting to USD 590,000.

14. Equity

As at 31 December 2016 and 31 December 2015 the Group had fully contributed charter capital of GEL 3,180,000.

No dividends are declared in 2016 and 2015.

Capital management

The Group's objectives when managing capital are:

- To ensure that the Group maintains capital at levels appropriate to ensure that it complies with all covenants set by lenders and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize participant's value;
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

To achieve these goals the Group performs a detailed analysis of significant potential lease projects setting an individual minimal requirement for downpayment from clients and checking credit ratings.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

15. Other income

	2016	*2015*
Commission income from insurance	116,766	77,092
Gain from down-payment write off	79,519	158,987
Insurance compensations	55,743	25,981
Income from operating leases	58,486	54,566
Gains from selling repossessed assets	–	200,013
Other	72,458	63,508
Other income	382,972	580,147

(Amounts in Georgian lari)

16. Other general and administrative expenses

	2016	*2015*
Insurance expenses	670,224	592,527
Operating taxes other than income tax	470,000	358,500
Legal and professional services	305,091	424,696
Rent expenses	213,125	238,048
Prepayment write-off	136,840	634,911
Advertisement	81,047	3,148
Depreciation and amortization expenses	56,044	55,053
Repair expenses	17,479	26,286
Travel	17,163	21,176
Banking services	9,806	28,760
Other	214,290	128,954
Total general and administrative expenses	2,191,109	2,512,059

17. Financial risk management

Introduction

The Group's financial instruments primarily comprised of cash, finance lease receivables and loans payable and debt securities issued. In the course of its ordinary activity the Group is exposed to credit, liquidity, currency and interest rate risks.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

As of 31 December 2016 and 31 December 2015 the Group has no other significant financial assets subject to credit risk, except for:

- Cash and cash equivalents that are kept with the bank having rating BB- from Fitch Ratings;
- Finance lease receivables described below.

The credit quality of finance lease receivables is managed by the Group through credit quality groups. The table below shows the credit quality by class of finance lease receivables, based on the Group's credit quality groups' system.

	Neither past due nor impaired				
	High grade 2016	*Standard grade 2016*	*Sub–standard grade 2016*	*Past due or individually impaired 2016*	*Total 2016*
Finance lease receivables (gross)					
Service	5,815,275	3,419,355	1,697,050	1,301,006	12,232,686
Construction	5,370,992	1,576,138	731,249	510,266	8,188,645
Polygraph	253,210	428,968	–	–	682,178
Manufacturing	792,530	764,791	570,554	88,234	2,216,109
Consumer goods	960,348	203,074	–	66,139	1,229,561
Trade and retail	2,457,863	161,074	38,276	35,685	2,692,898
Agriculture	337,282	348,691	136,130	–	822,103
Energy	10,280	229,511	–	–	239,791
Individuals	3,173,649	426,880	148,066	559,020	4,307,615
Total	19,171,429	7,558,482	3,321,325	2,560,350	32,611,586

(Amounts in Georgian lari)

17. Financial risk management (continued)

Credit risk (continued)

	Neither past due nor impaired				
	High grade 2015	*Standard grade 2015*	*Sub–standard grade 2015*	*Past due or individually impaired 2015*	*Total 2015*
Finance lease receivables (gross)					
Service	3,280,761	1,650,938	2,091,260	1,337,650	8,360,609
Construction	1,419,183	672,222	499,060	302,882	2,893,347
Polygraph	20,442	–	–	–	20,442
Manufacturing	4,624,151	719,385	1,273,947	216,019	6,833,502
Consumer goods	615,167	253,511	79,080	–	947,758
Trade and retail	725,125	62,416	170,551	71,558	1,029,650
Agriculture	729,693	–	–	3,385,555	4,115,248
Energy	41,508	366,930	–	80,176	488,614
Individuals	815,822	160,071	101,059	1,305,292	2,382,244
Total	12,271,852	3,885,473	4,214,957	6,699,132	27,071,414

The credit risk assessment policy for non-past due and individually non-impaired financial lease receivables has been determined by the Group as follows:

- A financial lease receivable that is neither past due (overdue days at reporting day is less than five days) nor impaired as at reporting date and has historical maximum overdue days during the period of less than 30 is assessed as a financial asset with High Grade;
- A financial lease receivable that is neither past due (overdue days at reporting day is less than five days) nor impaired as at reporting date and has historical maximum overdue days during the period between 30 and 60 is assessed as a financial asset with Standard Grade;
- A financial lease receivable that is neither past due (overdue days at reporting day is less than five days) nor impaired as at reporting date and has historical maximum overdue days during the period of more than 60 is assessed as a financial asset with Sub-standard Grade;

It is the Group's policy to maintain accurate and consistent risk ratings across the lease portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business.

Past due or individually impaired finance lease receivables include those that are past due by more than five days as of the last day of the fiscal year.

Aging of finance lease receivables that are past due but not impaired is as follows in 2016 and 2015:

	Less than 30 days 2016	*31 to 60 days 2016*	*More than 60 days*	*Total 2016*
Finance lease receivables (gross)				
Construction	236,830	–	53,587	290,417
Service	840,263	32,839	69,905	943,007
Trade and retail	35,685	–	–	35,685
Consumer goods	66,139	–	–	66,139
Individuals	205,362	12,005	35,142	252,509
Total	1,384,279	44,844	158,634	1,587,757

(Amounts in Georgian lari)

17. Financial risk management (continued)

Credit risk (continued)

	Less than 30 days 2015	*31 to 60 days 2015*	*More than 60 days*	*Total 2015*
Finance lease receivables (gross)				
Construction	70,887	22,170	128,472	221,529
Agriculture	–	–	3,385,555	3,385,555
Manufacturing	204,424	–	–	204,424
Service	576,599	154,619	267,843	999,061
Trade and retail	–	17,921	3,746	21,667
Energy	–	80,176	–	80,176
Individuals	5,760	–	136,159	141,919
Total	857,670	274,886	3,921,775	5,054,331

The main considerations for the finance lease receivables individual impairment assessment include whether any payments of principal or interest are overdue by more than 60 days or there are any known difficulties in the cash flows of counterparties, or infringement of the original terms of the contract.

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2016 and 31 December 2015 based on contractual undiscounted repayment obligations. The gross nominal outflow disclosed in the table is the contractual, undiscounted repayment obligations on the financial liabilities. The actual cash flows on these financial liabilities may vary from this analysis.

Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
As at 31 December 2016					
Loans payable	–	–	979,240	16,749,692	17,728,932
Debt securities issued	1,148,457	27,635,493	–	–	28,783,950
Total undiscounted financial liabilities	1,148,457	27,635,493	979,240	16,749,692	46,512,882

Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
As at 31 December 2015					
Loans payable	15,391,442	2,370,739	–	–	17,762,181
Debt securities issued	983,249	994,054	24,507,910	–	26,485,213
Total undiscounted financial liabilities	16,374,691	3,364,793	24,507,910	–	44,247,394

(Amounts in Georgian lari)

17. Financial risk management (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. As of 31 December 2016 the Group has no financial liabilities with floating interest rates. As of 31 December 2015 the Group has floating interest rate loans payable linked to LIBOR and therefore is exposed to interest rate risk. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit or loss statement.

2015	*Increase/ (decrease) in basis points*	*Sensitivity of pre-tax income*
LIBOR	+0.12%	(15,709)
LIBOR	-0.12%	15,709

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2016 and 31 December 2015 on its financial assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rates against the Georgian lari, with all other variables held constant in the consolidated profit or loss. A negative amount in the table reflects a potential net reduction in in the consolidated profit or loss, while a positive amount reflects a net potential increase.

Currency	*Appreciation of the exchange rate of GEL against the respective currency in % 2016*	*Effect on profit before tax 2016*	*Appreciation of the exchange rate of GEL against the respective currency in % 2015*	*Effect on profit before tax 2015*
EUR	17.50%	3,724	20.00%	(467,910)
USD	14.00%	(3,406)	15.00%	1,025,251

Currency	*Depreciation of the exchange rate of GEL against the respective currency in % 2016*	*Effect on profit before tax 2016*	*Depreciation of the exchange rate of GEL against the respective currency in % 2015*	*Effect on profit before tax 2015*
EUR	-10.50%	(2,234)	-16.00%	374,328
USD	-7.00%	1,703	-11.00%	(751,851)

(Amounts in Georgian lari)

18. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled:

	2016		
	Within one year	*More than one year*	*Total*
Assets			
Cash and cash equivalents	675,959	–	675,959
Investment securities: available-for-sale	20,545	20,545	41,090
Finance lease receivables	19,813,681	12,797,905	32,611,586
Assets held for leasing	11,156,115	–	11,156,115
Prepayments for assets held for leasing purposes	3,258,569	–	3,258,569
Current income tax assets	632,468	–	632,468
Deferred income tax assets	–	–	–
Investment property	–	2,488,301	2,488,301
Other assets	133,977	160,581	294,558
Total	35,691,314	15,467,332	51,158,646
Liabilities			
Loans payable	–	17,728,932	17,728,932
Debt securities issued	26,904,767	–	26,904,767
Advances from customers	2,078,621	–	2,078,621
VAT and other taxes payable	434,203	–	434,203
Other liabilities	449,387	–	449,387
Total	29,866,978	17,728,932	47,595,910
Net	5,824,336	(2,261,600)	3,562,736

	2015		
	Within one year	*More than one year*	*Total*
Assets			
Cash and cash equivalents	2,313,617	–	2,313,617
Investment securities: available-for-sale	1,829,226	–	1,829,226
Finance lease receivables	15,635,429	10,637,515	26,272,944
Assets held for leasing purposes	8,857,858	–	8,857,858
Prepayments for assets held for leasing purposes	1,391,145		1,391,145
Current income tax assets	608,522	–	608,522
Deferred income tax assets	–	725,765	725,765
Investment property	–	2,488,301	2,488,301
Other assets	633,006	193,858	826,864
Total	31,268,803	14,045,439	45,314,242
Liabilities			
Loans payable	15,815,446	–	15,815,446
Debt securities issued	2,003,769	20,691,848	22,695,617
Advances from customers	1,903,559	–	1,903,559
Other liabilities	216,628	–	216,628
Total	19,939,402	20,691,848	40,631,250
Net	11,329,401	(6,646,409)	4,682,992

The assets held for leasing purposes are expected to be sold or re-leased under finance lease arrangements within 1 year after the reporting date.

(Amounts in Georgian lari)

19. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	2016	*2015*
	*Entities under common control**	*Entities under common control**
Rent income from investment property	171,219	171,174
Commission income from insurance	116,766	60,978
Rent expenses	205,852	237,404
Other income	–	158,425
Investment securities: available for sale	–	1,829,226
Income from Investment securities: available-for-sale	18,880	106,653
Loans payable at 1 January	2,346,097	919,166
Loans received during the year	17,756,647	2,348,700
Loan repayments during the year	(2,249,116)	(1,097,668)
Other movement / Other accruals/(payments)	(124,696)	175,899
Loans payable at 31 December	17,728,932	2,346,097
Interest expense on Loans payable	672,876	229,627
Debt securities issued at 1 January	1,953,539	1,506,914
Debt securities issued during the year	1,635,994	–
Other movements	(612,868)	446,625
Debt securities issued at 31 December	2,976,665	1,953,539
Interest expense on Debt securities issued	177,916	230,838
Amounts due to suppliers at 1 January	190,837	61,872
Origination during the year	1,395,729	958,028
Settlement during the year	(1,336,529)	(829,063)
Amounts due to suppliers at 31 December	250,037	190,837

* Included into entities under common control are members of BGEO.

** Included in the key management personnel are members of management and supervisory board of members of the Parent, JSC BGEO Group and BGEO.

As of 31 December 2016 the Group held equity instruments of BGEO with the carrying value of GEL 41,090 (2015: 0).

As at 31 December 2016 the Group's debt securities issued were held by Key management personnel with outstanding balance GEL 658,984 (2015: GEL 712,351) with respective interest expense accrued during the year amounting to GEL 64,873 (2015: GEL 65,064).

(Amounts in Georgian lari)

19. Related party transactions (continued)

Compensation of key management personnel comprised to the following:

	31 December 2016	*31 December 2015*
Salaries and cash bonuses	125,750	81,278
Share-based compensation	42,268	–
Total key management compensation	168,018	81,278

20. Fair value measurement

The following tables show analysis of assets, other than finance lease receivables, and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy:

	Fair value measurement using					
At 31 December 2016	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*	*Carrying value*	*Unrecognised gain/(loss)*
Assets measured at fair value						
Investment securities available-for-sale	41,090	–	–	41,090	41,090	–
Investment property	–	–	2,488,301	2,488,301	2,488,301	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	675,959	–	675,959	675,959	–
Finance lease receivables	–	–	37,135,794	37,135,794	33,555,763	(3,580,031)
Liabilities for which fair values are disclosed						
Loans payable	–	–	17,728,932	17,728,932	17,728,932	–
Debt securities issued	–	27,478,998	–	27,478,998	26,904,767	574,231

	Fair value measurement using					
At 31 December 2015	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*	*Carrying value*	*Unrecognised gain/(loss)*
Assets measured at fair value						
Investment securities available-for-sale	–	1,829,226	–	1,829,226	1,829,226	–
Investment property	–	–	2,488,301	2,488,301	2,488,301	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	2,313,617	–	2,313,617	2,313,617	–
Finance lease receivables	–	–	28,538,336	28,538,336	27,071,414	(1,466,922)
Liabilities for which fair values are disclosed						
Loans payable	–	–	15,815,446	15,815,446	15,815,446	–
Debt securities issued	–	23,080,801	–	23,080,801	22,695,617	385,184

During the years ended 31 December 2016 and 2015, there have been no transfers between levels of fair value hierarchy for assets and liabilities measured at fair value.

Investment property

Investment property is revalued by an independent valuator. Involvement of external valuer is decided upon annually by the management based on market knowledge, reputation, independence and professional standards maintained. The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13.

(Amounts in Georgian lari)

20. Fair value measurement (continued)

Investment property (continued)

The following table shows valuation technique and descriptions of significant unobservable inputs to valuation and related sensitivity to reasonable possible changes in those inputs:

Class of investment properties	*2016, 2015*	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average), GEL*	*Type*	*Total area, square meters*	*Sensitivity of the input to fair value, GEL*
Office building	2,488,301	Income Approach method	Rent per square metre	53-58 (55)	Land	226	10% increase (decrease) in the rent per square meter would result in increase (decrease) in fair value by 248,830

Investment securities available-for-sale

Investment securities available-for-sale as of 31 December 2016 represent equity securities quoted in active markets.

Investment securities available-for-sale as of 31 December 2015 are valued using models which incorporate observable data in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Financial instruments for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to loans payable bearing interest at floating rates.

Fixed rate financial assets and financial liabilities carried at amortized cost

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by discounting future cash flows using rates currently available for new instruments on similar terms, credit risk and remaining maturities.