Georgian Leasing Company LLC

Consolidated financial statements

For the year ended 31 December 2019
together with the independent auditor's report

Contents

EY LLC
Kote Abkhazi Street, 44
Tbilisi, 0105, Georgia
Tel: +995 (32) 215 8811
Fax: +995 (32) 215 8822
www.ey.com/ge

შპს იუაი
საქართველო, 0105 თბილისი
კოტე აფხაზის ქუჩა 44
ტელ: +995 (32) 215 8811
ფაქსი: +995 (32) 215 8822

Independent auditor's report

To the Participant of Georgian Leasing Company LLC

Opinion

We have audited the consolidated financial statements of Georgian Leasing Company LLC (hereinafter, the "Company") and its subsidiary (hereinafter, together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of 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 consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs).
Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (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.

Key audit matter

Allowance for expected credit losses for finance lease receivables under IFRS 9 Financial Instruments

Given the significance of the allowance for expected credit losses on finance lease receivables to the Group's financial position, the complexity and judgements related to the estimation of expected credit losses under newly adopted IFRS 9 *Financial Instruments* ("IFRS 9"), we considered this area as a key audit matter.

Key areas of judgment included:

- Accounting interpretations and modelling assumptions used to build the models for calculating the expected credit losses (ECL);
- Allocation of leases to stage 1, 2 or 3 using criteria set in accordance with IFRS 9;
- Inputs and assumptions used to estimate the impact of multiple economic scenarios;
- Estimation of probability of default (PD), loss given default (LGD) and exposure at default (EAD), including the valuation of collateral; and
- Assessment of financial statement disclosures.

As a consequence of the judgment involved in establishing the allowance, the use of different modelling techniques, assumptions and forecasts could produce significantly different estimates of the allowance for ECL.

Information on the impairment of finance lease receivables is included in Note 6, *Finance lease receivables* and Note 18, *Risk Management*, to the consolidated financial statements.

How our audit addressed the key audit matter

We obtained an understanding of the ECL process and with support of our internal modelling specialists we evaluated the methodology developed by the Group.

We focused on analysis of the following areas during our audit:

- Evaluating credit risk models and assumptions used to estimate key provisioning parameters, and determine ECL on a portfolio basis;
- Assessing management's judgement in relation to the identification of significant increases in credit risk based on quantitative and qualitative criteria;
- Testing allocation of finance leases to respective impairment stages based on predefined criteria.

To test allowance calculated on a collective basis, with the support of our internal modelling specialists, we evaluated underlying statistical models, key inputs and assumptions used and assessed incorporation of forward-looking information in the calculation of ECL and we recalculated impairment provisions on a sample basis.

We have also performed procedures that involved assessment and validation of the Group's controls and substantive testing to verify the data flow in and out of the credit models, to test the integrity of the data used during the process and consistency between the sources/systems.

We also assessed disclosures on the impairment of finance lease receivables.

Key audit matter	How our audit addressed the key audit matter
Valuation of assets held for leasing purposes	
The Group's assets held for leasing purpose comprised GEL 21,468,123, as disclosed in Note 7, *Assets held for leasing purposes*, which represented repossessed assets from non-performing lessees pending further lease or sale, and legally repossessed assets from non-performing lessees pending physical repossession. The Group measures these assets at lower of its cost and net realizable value. Estimation of net realizable value is performed by the independent valuator at each reporting date. Valuations are inherently uncertain, involves judgment and is subject to an estimation process. The significance and subjectivity of these valuations, the risk of recoverability of the assets under repossession which are not held physically by the Group and significant judgment involved for assessing the appropriate level of the provision for slow moving items makes valuation of asset held for leasing purpose a key audit matter. The Group's disclosures on assets held for leasing are made in Note 7, *Assets held for leasing purposes* of the consolidated financial statements	Our audit procedures related to valuation of the assets held for leasing included the following: ► We obtained and inspected the valuation report prepared by the external independent valuator engaged by the Group. We assessed the valuation methodology, key assumptions and estimates used in the valuations on a sample basis, based on evidence of comparable market transactions and other available information, with an assistance of our own valuation specialists. ► We evaluated the provision for slow moving assets held for leasing purpose, by analyzing historical sales of repossessed assets and comparing it to management's estimates for future sale. ► We also analyzed the repossession cycle of the assets and ensured that majority of the assets pending physical repossession are insured and in case of lost or damage the Group is entitled to respective reimbursement form insurance company.

Other information included in the Group's Annual report

Other information consists of the information included in Group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2019 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon in our report on the audit of the consolidated financial statements.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Participant for the consolidated 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Participant is responsible for overseeing the Group'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 Group'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 Group'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 auditor's report. However, future events or conditions may cause the Group 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 Group 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 him 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 Oleg Youshenkov.

O.V. Youshenkov

On behalf of EY LLC

30 June 2020

Tbilisi, Georgia

Consolidated statement of financial position

As at 31 December 2019

(Amounts in Georgian lari)

	Notes	2019	2018
Assets			
Cash and cash equivalents	5	21,280,992	3,541,548
Restricted cash	5	-	2,793,791
Finance lease receivables	6	130,359,456	88,081,479
Assets held for leasing purposes	7	21,468,123	11,114,733
Prepayments for assets held for leasing purposes	8	13,820,350	6,111,981
Property and equipment	10	1,251,015	749,676
Investment property	23	-	2,754,221
Other assets	11	1,368,869	1,550,813
Total assets		189,548,805	116,698,242
Liabilities			
Loans payable	12	86,170,329	55,291,502
Debt securities issued	13	72,538,704	36,940,653
Lease liability		736,253	
Advances from customers		3,556,288	2,605,947
Current income tax payable	9	-	53,856
Taxes payable	9	-	63,293
Other liabilities		2,050,026	1,097,926
Total liabilities		165,051,600	96,053,177
Equity			
Charter capital		3,180,000	3,180,000
Additional paid-in capital		15,188,227	15,030,247
Accumulated losses		6,581,153	2,713,739
Other reserve		(452,175)	(278,921)
Total equity	15	24,497,205	20,645,065
Total liabilities and equity		189,548,805	116,698,242

Signed and authorized for release on behalf of the management on 30 June 2020:

Eldar Akhvlediani — Chief Executive Officer

Nestan Mikeladze — Chief Financial Officer

The accompanying notes from pages 12 to 40 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2019

(Amounts in Georgian lari)

	Notes	2019	2018
Interest income calculated using effective interest method			
Finance income from leases		27,439,021	16,001,415
Cash and cash equivalents		283,004	118,872
Interest expense			
Lease liability		(63,489)	-
Loans payable		(6,143,425)	(2,504,925)
Debt securities issued		(3,995,146)	(2,260,838)
Net interest income		**17,519,965**	**11,354,524**
Expected credit losses on interest bearing assets	6	(1,594,846)	(932,359)
Expected credit losses for other assets	5, 11	(90,631)	(96,982)
Net interest income after expected credit losses for assets		**15,834,488**	**10,325,183**
Income from penalties on finance lease receivables	6	2,058,800	982,874
Rent income from investment property		-	84,383
Net gain on revaluation of investment property	23	-	18,546
Net loss from foreign currency translation		(532,401)	(555,747)
Other income	16	1,074,881	947,406
Operating income		**18,435,768**	**11,802,645**
Other general and administrative expenses	17	(11,053,514)	(7,099,809)
Salaries and other employee benefits		(2,609,897)	(1,855,099)
Write-off of assets held for leasing purposes		(883,270)	(464,227)
Operating expenses		**(14,546,681)**	**(9,419,135)**
Income before income tax expense		**3,889,087**	**2,383,510**
Income tax expense	9	(21,673)	(53,856)
Net Income for the year		**3,867,414**	**2,329,654**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Reclassification of realized gains on investment securities available-for-sale to profit or loss		-	-
Other comprehensive (loss)/income for the year, net of tax		-	-
Total comprehensive income for the year		**3,867,414**	**2,329,654**

The accompanying notes from pages 12 to 40 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2019

(Amounts in Georgian lari)

	Charter capital	*Additional paid-in capital*	*Other reserve*	*Retained earnings*	*Total equity*
31 December 2017	**3,180,000**	**14,895,035**	**(132,540)**	**384,085**	**18,326,580**
Net loss for the year	-	-	-	2,329,654	**2,329,654**
Contributions under share-based compensation program (Note 22)	-	-	(146,381)	-	**(146,381)**
Share-based payments (Note 22)	-	135,212	-	-	**135,212**
31 December 2018	**3,180,000**	**15,030,247**	**(278,921)**	**2,713,739**	**20,645,065**
Net profit for the year	-	-	-	3,867,414	**3,867,414**
Contributions under share-based compensation program (Note 22)	-	-	(173,254)	-	**(173,254)**
Share-based payments (Note 22)	-	157,980	-	-	**157,980**
31 December 2019	**3,180,000**	**15,188,227**	**(452,175)**	**6,581,153**	**24,497,205**

The accompanying notes from pages 12 to 40 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2019

(Amounts in Georgian lari)

	Notes	*2019*	*2018*
Cash flows from operating activities			
Interest income received		25,138,884	14,849,766
Other income received		3,263,166	2,135,187
Interest paid		(8,778,518)	(4,463,980)
Other general and administrative expenses paid		(10,594,742)	(6,736,360)
Salaries and other employee benefits paid		(2,543,677)	(1,799,048)
Cash flows from operating activities before changes in operating assets and liabilities		**6,485,113**	**3,985,565**
(Increase) decrease in operating assets			
Finance lease receivables		(50,912,394)	(43,466,754)
Assets held for leasing purposes		2,573,082	1,503,545
Prepayments for assets held for leasing purposes		(7,729,849)	214,791
Other assets		406,255	(877,035)
Increase (decrease) in operating liabilities			
Advances from customers		868,848	1,378,426
VAT and other taxes payables		(996,021)	(286,748)
Other liabilities		639,883	112,677
Net cash used in operating activities		**(48,665,083)**	**(37,435,534)**
Cash flows from investing activities			
Purchase of property and equipment		(293,969)	(467,611)
Purchase of intangible assets		(79,950)	(146,884)
Selling of investment property		3,249,981	-
Net cash from/ (used in) investing activities		**2,876,062**	**(614,495)**
Cash flows from financing activities			
Net movement in restricted cash	5	2,793,791	(2,793,791)
Lease liabilities		(344,772)	-
Debt securities issued		32,409,020	8,967,898
Repayment of borrowings		(63,018,934)	(17,357,517)
Receipt of borrowings		91,694,673	51,302,540
Net cash from financing activities		**63,533,778**	**40,119,130**
Effect of exchange rate changes in cash and cash equivalents		(5,313)	294,406
Net increase in cash and cash equivalents		**17,739,444**	**2,363,507**
Cash and cash equivalents, beginning	5	3,541,548	1,178,041
Cash and cash equivalents, ending	5	**21,280,992**	**3,541,548**

The accompanying notes from pages 12 to 40 are an integral part of these consolidated 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 (identification number 204972155). 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 at 31 December 2019 and 2018, GLC and its subsidiary (collectively referred to as a "Group") are wholly-owned by JSC Bank of Georgia (2016: JSC BG Financial). In July 2017 JSC Bank of Georgia (hereinafter "the Parent") purchased 100% share in the GLC from JSC BG Financial. JSC Bank of Georgia itself is wholly-owned by JSC Bank of Georgia Group. The ultimate parent and controlling party of the Group as of 31 December 2019 and 2018 Bank of Georgia Group plc ("BOGG"), UK registered company, premium listed on London Stock Exchange.

These financial statements have not yet been approved by the Parent of the Company. The Parent has the power and authority to amend the financial statements after the issuance.

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

As of 31 December 2019 and 31 December 2018 the Group consisted of the Company and its 100% owned subsidiary – Prime Leasing LLC – which provides 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.

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.

The Group's current liabilities exceeded its current assets by GEL (3,937,214). The management of the Group in order to mitigate liquidity issues developed a stress scenario covering period of at least 12 months since the date of the authorization of these financial statements for issuance. The key stressed scenario assumptions included:

- Decrease in lease principal and interest repayments due to rescheduling and grace periods;
- Renegotiated roll overs for the existing borrowings.

The Group works intensively with lenders to obtain new funding and renegotiate the terms of the existing facilities. Throughout January-May 2020, the Group attracted GEL 35,582,00 new borrowings from local banks and international financial institutions and agreed to reschedule payments due in 2020 in relation to borrowings with carrying value of GEL 27,946,000 as at 31 December 2019. The Group is at the advanced stage of communication with several other lenders to reschedule 2020 payments to later periods.

Group obtained a support letter from Bank of Georgia (the "Parent") on June 26, 2020, stating that the Parent has intention to support Group's operation in foreseeable future, at least 12 months after the date of the financial statements of the Group are issued and provide finances if needed. The management of the Group evaluated that the Parent has sufficient resources to provide the Company with financial support if necessary.

Management believes that the combination of the aforementioned initiatives will provide the Group with necessary liquidity to continue its operations beyond 2020.

(Amounts in Georgian lari)

3. Summary of significant accounting policies

Changes in accounting policies

The Group has applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

IFRS 16 Leases

IFRS 16 supersedes 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'). On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rates as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was in a range of 6.50%-11.30% depending on the terms of the lease.

Right-of-use asset was measured on transition at an amount equal to the lease liability, adjusted by the amount of any prepaid amounts recognized immediately before the date of initial application. As a result, the Group did not recognize any transition effect on its retained earnings on 1 January 2019.

The effect of adoption IFRS 16 as at 1 January 2019 increases as follows:

Assets	
Property and equipment	1,023,169
Total assets	**1,023,169**
Liabilities	
Lease liabilities	1,023,169
Total liabilities	**1,023,169**

(a) Nature of the effect of adoption of IFRS 16

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

(Amounts in Georgian lari)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

<u>Group as a lessee</u>

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

<u>Right-of-use assets</u>

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

<u>Lease liabilities</u>

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

<u>Short-term leases and leases of low value assets</u>

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to certain leases of assets that are considered of low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

(Amounts in Georgian lari)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Amounts recognised in the consolidated statement of financial position, consolidated income statement and consolidated statement of cash flows:

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right of use assets	
	Buildings	*Lease liabilities*
As at 1 January 2019	**1,023,169**	**1,023,169**
Additions	-	-
Depreciation expense	(337,535)	-
Interest expense	-	63,489
Payments	-	(404,926)
FX effect	-	54,522
As at 31 December 2019	**685,634**	**736,253**

The Group recognised rent expense from short-term leases of GEL 329,366 and leases of low-value assets of GEL 28,019 for the year ended 31 December 2019.

The Group had total cash outflows for leases of GEL 762,311 in 2019 (2018: GEL 326,019).

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex environment, it assessed whether the Interpretation had an impact on its financial statements. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Interpretation did not have an impact on the financial statements of the Group.

(Amounts in Georgian lari)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the financial statements of the Group.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at 31 December 2019. 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.

Subsidiary 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 Subsidiary 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 profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to consolidated profit or loss.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash on hand and current accounts.

(Amounts in Georgian lari)

3. Summary of accounting policies (continued)

Financial assets

Initial recognition

Date of recognition

Purchases and sales of financial assets and liabilities are recognized on the date of transaction i.e. the date that the Group commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Initial measurement

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

Measurement categories of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

The Group classifies and measures its derivative and trading portfolio at FVPL. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

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

Business model assessment

The Group determines its business model at the level that best reflects how it manages financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are recognized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(Amounts in Georgian lari)

3. Summary of accounting policies (continued)

Financial assets (continued)

The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal recognition of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified.

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.

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)

3. Summary of 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.

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.

Write-off

The financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

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)

3. 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 annual profit earned by entities other than banks, insurance companies and microfinance organizations is not taxed in Georgia starting from 1 January 2017 (Note 9). Corporate income tax is paid on dividends is levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia at the rate of 15/85 of net distribution. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. In certain circumstances, deductions from income tax charge payable are available that are accounted as reduction of income tax expense related to respective distribution. Due to the nature of the Georgian taxation system, no deferred tax assets and liabilities arise for the entities registered in Georgia. Withholding tax payable in respect of dividend distribution to the shareholders of the Group is recognized as deduction from equity in the consolidated statement of changes in equity.

Georgian tax legislation also provides for charging corporate income tax on certain transactions that are considered deemed profit distributions (for example, transactions at non-market prices, non-business related expenses or supply of goods and services free of charge). Taxation of such transactions is accounted similar to operating taxes and is reported as Income tax (expense)/benefit in consolidated income statement.

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 re-measured 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 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)

3. 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 21.

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 consolidated 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 consolidated 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.

(Amounts in Georgian lari)

3. Summary of significant accounting policies (continued)

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

The Group calculates interest revenue on debt financial assets measured at amortised cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Group calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest revenue on a gross basis.

Employee benefits

Wages, salaries, annual leave and sick leave, bonuses, share-based compensations and other benefits are accrued in the period in which the associated services are rendered by the employees of the Group.

Employee stock ownership plan

Share-based payment transactions

Chief Executive Officer and Deputy Chief Executive Officer of the Group receive share-based remuneration settled in equity instruments of the Group's ultimate parent, the BOGG. Grants are made by BOGG.

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity settled transactions is recognized together with the corresponding increase in additional paid in capital, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. Settlements to the Parent for the shares granted to the employees of the Group are accounted as negative other reserves.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

Depreciation is calculated on a straight-line basis over the 3 years for all class of property and equipment.

Assets are depreciated from the month the asset is put into operation. Land is not depreciated.

(Amounts in Georgian lari)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Functional and reporting currencies and foreign currency translation

The consolidated 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 gain (loss) from foreign currency translation.

The official NBG exchange rates at 31 December 2019 and 31 December 2018 are disclosed below:

	31 December 2019	*31 December 2018*
GEL to USD	2.8677	2.6766
GEL to EUR	3.2095	3.0701

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective, with no material effect on the financial statements expected:

- IFRS 17 *Insurance Contracts*;
- Amendments to IFRS 3 *Definition of a Business*;
- Amendments to IAS 1 and IAS 8 *Definition of Material*;
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7.

The amendments come into effect from 1 January 2020, but entities may choose to apply them earlier. The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

(Amounts in Georgian lari)

4. 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 consolidated financial statements. The most significant use of judgments and estimates are as follows:

Expected credit losses

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's criteria for assessing if there has been a significant increase in credit risk and so;
- Allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as GDP growth, inflation rate and foreign exchange rate, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios to derive the economic inputs into the ECL models.

Valuation of 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.

Assets held for leasing purposes represents repossessed assets from non-performing lessees pending further lease or sale, and legally repossessed assets from non-performing lessees pending physical repossession. The majority of the assets pending physical repossession are insured and in case of lost or damage the Group is entitled to respective reimbursement form insurance company.

Information about assets held for leasing purposes as of 31 December 2019 and 31 December 2018 is presented in Note 7 and respective income from insurance is presented in Note 16.

5. Cash and cash equivalents

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

	2019	*2018*
Cash on hand	48	164
Current accounts with the Parent	8,692,304	3,540,825
Current accounts with other banks	12,603,928	4,611
Less: allowance for expected credit loss	(15,288)	(4,052)
Cash and cash equivalents	21,280,992	3,541,548

All balances of cash equivalents are allocated to Stage 1.

In 2018 restricted cash account includes cash in the amount of GEL 2,793,791 (placed to serve as guarantee deposit in local banks, with maturity less than twelve month.

(Amounts in Georgian lari)

6. Finance lease receivables

	Due within 1 year 2019	*Due between 1 to 5 years 2019*	*Total 2019*
Minimum lease payments receivable	**73,061,112**	**112,509,178**	**185,570,290**
Less: unearned finance lease income	(7,651,997)	(45,143,715)	**(52,795,712)**
Finance lease receivables	**65,409,115**	**67,365,463**	**132,774,578**
Less: allowance for expected credit loss for finance lease receivables	(1,338,195)	(1,076,927)	**(2,415,122)**
Net finance lease receivables	**64,070,920**	**66,288,536**	**130,359,456**

	Due within 1 year 2018	*Due between 1 to 5 years 2018*	*Total 2018*
Minimum lease payments receivable	**47,363,525**	**78,731,700**	**126,095,225**
Less: unearned finance lease income	(3,671,550)	(33,202,833)	**(36,874,383)**
Finance lease receivables	**43,691,975**	**45,528,867**	**89,220,842**
Less: impairment loss for finance lease receivables	(589,464)	(549,899)	**(1,139,363)**
Net finance lease receivables	**43,102,511**	**44,978,968**	**88,081,479**

As of 31 December 2019, concentration of finance lease receivables to 5 largest lease contracts comprised GEL 9,180,109 (2018: GEL 8,020,742) which is 7% (2018: 9%) of total finance lease receivables, and finance lease income received from them comprised GEL 1,535,580 (2018: GEL 1,015,708), which is 6% (2018: 6%) of total finance lease income.

Penalties on finance lease receivables are mainly accrued for overdue payments. The Group recognizes penalty income only when received. In 2019 the Group recognized income from penalties of GEL 2,058,800 (2018: GEL 982,874).

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 2019 and 2018 are payable to the Group in the following currencies:

	2019	*2018*
USD	58,350,706	48,462,353
EUR	13,923,448	13,309,439
GEL	58,085,302	26,309,687
Net finance lease receivables	**130,359,456**	**88,081,479**

The types of assets that the Group leases out at 31 December 2019 and 2018 can be aggregated into the following categories:

	2019		*2018*	
	Amount	*Number of projects*	*Amount*	*Number of projects*
Construction equipment	45,339,465	389	30,187,869	262
Passenger cars	57,319,166	4,198	35,377,297	2,543
Transport, except passenger cars	10,684,273	237	11,657,259	140
Machinery & equipment	17,016,552	138	10,859,054	97
Net finance lease receivables	**130,359,456**	**4,962**	**88,081,479**	**3,042**

(Amounts in Georgian lari)

6. Finance lease receivables (continued)

Movements in finance lease receivables and impairment allowance for finance leases for 2019 and 2018 under IFRS 9 are as follows:

	Finance lease receivables (gross)			*Total*
Corporate portfolio	*Stage 1*	*Stage 2*	*Stage 3*	*2019*
Balance at 1 January 2019	**57,547,560**	**4,272,636**	**1,954,614**	**63,774,810**
New financial asset originated or purchased	73,619,151	-	-	**73,619,151**
Transfer to Stage 1	13,446,141	(13,176,504)	(269,637)	-
Transfer to Stage 2	(31,678,342)	31,678,342	-	-
Transfer to Stage 3	(1,309,967)	(14,177,826)	15,487,793	-
Assets repaid	(36,279,035)	(2,302,008)	(3,745,759)	**(42,326,802)**
Write-offs	-	-	(3,952,265)	**(3,952,265)**
Other movements*	3,364,100	347,037	473,088	**4,184,225**
Balance at 31 December 2019	**78,709,608**	**6,641,677**	**9,947,834**	**95,299,119**

	Impairment allowance for finance leases			*Total*
Corporate portfolio	*Stage 1*	*Stage 2*	*Stage 3*	*2019*
Allowance for expected credit losses as at 1 January 2019	**(410,565)**	**(28,324)**	**(276,533)**	**(715,422)**
New financial asset originated or purchased	(466,159)	-	-	**(466,159)**
Transfer to Stage 1	(110,922)	110,391	531	-
Transfer to Stage 2	665,363	(665,363)	-	-
Transfer to Stage 3	39,293	870,809	(910,102)	-
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	(480,343)	(571,239)	(663,877)	**(1,715,459)**
Assets repaid	118,512	10,772	381,594	**510,878**
Write-offs	-	-	706,309	**706,309**
Other movements*	(26,540)	(12,263)	(47,272)	**(86,075)**
Allowance for expected credit losses as at 31 December 2019	**(671,361)**	**(285,217)**	**(809,350)**	**(1,765,928)**

* *Other movements comprise of currency translation differences.*

	Finance lease receivables (gross)			*Total*
Retail portfolio	*Stage 1*	*Stage 2*	*Stage 3*	*2019*
Balance at 1 January 2019	**20,481,092**	**3,123,110**	**1,841,830**	**25,446,032**
New financial asset originated or purchased	43,324,219	-	-	**43,324,219**
Transfer to Stage 1	11,322,586	(10,547,450)	(775,136)	-
Transfer to Stage 2	(23,832,873)	24,672,171	(839,298)	-
Transfer to Stage 3	(4,563,769)	(12,254,216)	16,817,985	-
Assets repaid	(17,744,761)	(1,674,794)	(1,833,369)	**(21,252,924)**
Write-offs	-	-	(10,436,316)	**(10,436,316)**
Other movements	279,383	35,289	79,776	**394,448**
Balance at 31 December 2019	**29,265,877**	**3,354,110**	**4,855,472**	**37,475,459**

(Amounts in Georgian lari)

6. Finance lease receivables (continued)

	Impairment allowance for finance leases			*Total*
Retail portfolio	*Stage 1*	*Stage 2*	*Stage 3*	*2019*
Allowance for expected credit losses as at 1 January 2019	**(220,127)**	**(77,845)**	**(125,969)**	**(423,941)**
New financial asset originated or purchased	(369,313)	-	-	**(369,313)**
Transfer to Stage 1	(107,741)	100,917	6,824	-
Transfer to Stage 2	492,451	(506,517)	14,066	-
Transfer to Stage 3	272,224	736,802	(1,009,026)	-
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	(463,064)	(341,824)	(36,887)	**(841,775)**
Assets repaid	84,951	15,125	47,078	**147,154**
Write-offs	-	-	843,718	**843,718**
Other movements*	(1,320)	(533)	(3,184)	**(5,037)**
Allowance for expected credit losses as at 31 December 2019	**(311,939)**	**(73,875)**	**(263,380)**	**(649,194)**

	Finance lease receivables (gross)			*Total*
Corporate portfolio	*Stage 1*	*Stage 2*	*Stage 3*	*2018*
Balance at 1 January 2018	**32,679,682**	**2,946,396**	**964,043**	**36,590,121**
New financial asset originated or purchased	52,273,635	-	-	**52,273,635**
Transfer to Stage 1	15,545,926	(11,401,042)	(4,144,884)	-
Transfer to Stage 2	(18,620,166)	21,038,671	(2,418,505)	-
Transfer to Stage 3	(4,177,520)	(5,655,327)	9,832,847	-
Assets repaid	(21,030,568)	(2,774,844)	(590,304)	**(24,395,716)**
Write-offs	-	-	(1,743,901)	**(1,743,901)**
Other movements*	876,571	118,782	55,318	**1,050,671**
Balance at 31 December 2018	**57,547,560**	**4,272,636**	**1,954,614**	**63,774,810**

	Impairment allowance for finance leases			*Total*
Corporate portfolio	*Stage 1*	*Stage 2*	*Stage 3*	*2018*
Allowance for expected credit losses as at 1 January 2018	**(96,463)**	**(44,735)**	**(139,280)**	**(280,478)**
New financial asset originated or purchased	(222,782)	-	-	**(222,782)**
Transfer to Stage 1	(26,342)	22,781	3,561	-
Transfer to Stage 2	155,825	(167,028)	11,203	-
Transfer to Stage 3	95,252	238,785	(334,037)	-
Impact on period end ECL of exposures transferred between stages during the period	(316,477)	(80,171)	54,680	**(341,968)**
Assets repaid	3,969	2,724	345	**7,038**
Write-offs	-	-	77,078	**77,078**
Other movements*	(3,547)	(680)	49,917	**45,690**
Allowance for expected credit losses as at 31 December 2018	**(410,565)**	**(28,324)**	**(276,533)**	**(715,422)**

* *Other movements comprise of currency translation differences.*

(Amounts in Georgian lari)

6. Finance lease receivables (continued)

	Finance lease receivables (gross)			*Total*
Retail portfolio	*Stage 1*	*Stage 2*	*Stage 3*	*2018*
Balance at 1 January 2018	**8,834,179**	**613,385**	**431,237**	**9,878,801**
New financial asset originated or purchased	27,527,275	-	-	**27,527,275**
Transfer to Stage 1	7,047,061	(5,631,409)	(1,415,650)	-
Transfer to Stage 2	(12,780,595)	12,957,635	(177,040)	-
Transfer to Stage 3	(2,647,636)	(4,210,250)	6,857,886	-
Assets repaid	(7,773,657)	(647,955)	(350,163)	**(8,771,775)**
Write-offs	-	-	(3,533,600)	**(3,533,600)**
Other movements	274,465	41,704	29,162	**345,331**
Balance at 31 December 2018	**20,481,092**	**3,123,110**	**1,841,830**	**25,446,032**

	Impairment allowance for finance leases			*Total*
Retail portfolio	*Stage 1*	*Stage 2*	*Stage 3*	*2018*
Allowance for expected credit losses as at 1 January 2018	**(53,600)**	**(12,117)**	**(65,477)**	**(131,194)**
New financial asset originated or purchased	(127,497)	-	-	**(127,497)**
Transfer to Stage 1	(39,188)	33,511	5,677	-
Transfer to Stage 2	207,838	(210,643)	2,805	-
Transfer to Stage 3	116,583	234,127	(350,710)	-
Impact on period end ECL of exposures transferred between stages during the period	(335,537)	(124,758)	40,231	**(420,064)**
Assets repaid	14,210	3,006	20,157	**37,373**
Write-offs	-	-	127,590	**127,590**
Other movements*	(2,936)	(971)	93,758	**89,851**
Allowance for expected credit losses as at 31 December 2018	**(220,127)**	**(77,845)**	**(125,969)**	**(423,941)**

* *Other movements comprise of currency translation differences.*

In the absence of collateral or other credit enhancement mechanisms, the allowance for expected credit losses on net investment in leases of Stage 3 as of 31 December 2019 and 2018 would be higher by:

	2019	*2018*
Retail lease receivables	3,011,957	896,391
Corporate lease receivables	2,338,235	412,753
Total impairment allowance for finance leases	**5,350,192**	**1,309,144**

The table below includes Stage 2 and 3 assets that were modified during the period, with the related modification loss suffered by the Group.

	2019	*2018*
Leases restructured during the period		
Amortised cost before modification	8,524,399	13,572,490
Net modification (loss)/gain	67,460	66,728
Loans restructured since initial recognition		
Gross carrying amount at 31 December 2019 and 2018 of finance leases for which loss allowance has changed to 12-month measurement during the period	266,362	58,376

(Amounts in Georgian lari)

7. Assets held for leasing purposes

	2019	*2018*
Assets held for leasing – repossessed	6,597,143	2,670,940
Assets held for leasing – under repossession	14,870,980	8,443,793
Assets held for leasing purposes	**21,468,123**	**11,114,733**

8. Prepayments for assets held for leasing purposes

Assets purchased for lease operations represent assets which will be subsequently transferred to lessees. Advances to suppliers for lease operations represent payments to suppliers for assets which will be subsequently transferred to lessees.

The Group is exposed to financial risks in relation to assets purchased for leasing purposes and advances to suppliers for lease operations as these assets represent the first stage of settlements under the leasing contracts which are performed after inception of the lease.

	2019	*2018*
Prepayments for assets held for leasing purposes	13,820,350	6,111,981
Prepayments for assets held for leasing purposes	**13,820,350**	**6,111,981**

Analysis by credit quality of advances to suppliers for lease operations as at 31 December 2019 and 31 December 2018 is as follows:

	2019	*2018*
Neither past due nor impaired	**9,020,197**	6,111,981
Past due		
- Less than 90 days overdue	**3,294,386**	-
- 91 days to 180 days overdue	**1,453,524**	-
- 181 days to 365 days overdue	**52,243**	-
Total past due	**4,800,153**	-
Total prepayments for assets held for leasing purposes	**13,820,350**	**6,111,981**

9. Taxation

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments became 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. On 27 December 2018 the effective date of the amendment for banks was revised to 1 January 2023. Under the new regulation, corporate income tax is levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia, rather than on profit earned. The amount of tax payable on a dividend distribution is calculated as 15/85 of the amount of net distribution. The companies are 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 is not subject to corporate income tax.

In 2019 the Group recognized income tax expense amounting to GEL 21,673 (2018: GEL 53,856) for expenses not related to economic activities.

(Amounts in Georgian lari)

10. Property and equipment

The movements in property, plant and equipment during the year ended 31 December 2019 were as follows:

	Vehicles	*Office equipment*	*Leasehold improvements*	*Right of use assets*	*Total*
Cost					
At 31 December 2017	**64,079**	**440,413**	**111,227**	**-**	**615,719**
Additions	47,212	190,099	230,300	-	**467,611**
At 31 December 2018	**111,291**	**630,512**	**341,527**	**-**	**1,083,330**
Additions	28,197	141,264	124,508	-	**293,969**
Recognition of the right-of-use assets	-	-	-	1,023,169	**1,023,169**
Reclassification	-	-	(213,800)	-	**(213,800)**
At 31 December 2019	**139,488**	**771,776**	**252,235**	**1,023,169**	**2,186,668**
Depreciation					
At 31 December 2017	**44,928**	**148,888**	**9,320**	**-**	**203,136**
Depreciation charge	25,658	62,864	41,996	-	**130,518**
At 31 December 2018	**70,586**	**211,752**	**51,316**	**-**	**333,654**
Depreciation charge	30,873	206,643	48,512	337,535	**623,563**
Reclassification	-	-	(21,564)	-	**(21,564)**
At 31 December 2019	**101,459**	**418,395**	**78,264**	**337,535**	**935,653**
Net book value					
At 31 December 2018	**40,705**	**418,760**	**290,211**	**-**	**749,676**
At 31 December 2019	**38,029**	**353,381**	**173,971**	**685,634**	**1,251,015**

Property and equipment are depreciated on straight-line basis over the useful economic lives of 3 years.

11. Other assets

Other assets comprise:

	31 December 2019	*31 December 2018*
Other financial assets		
Administrative penalties	373,496	143,566
VAT portion of overdue lease payments	322,758	141,076
Commission receivables	211,607	97,422
Receivables from selling assets	163,423	930,605
Operating lease receivables	-	31,819
Other	192,058	48,368
Less: allowance for expected credit loss	(172,325)	(92,930)
Total financial assets	**1,091,017**	**1,299,925**
Other non-financial assets		
Intangible assets	277,852	250,887
	1,368,869	**1,550,813**

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 2019 comprise GEL 569,065 (2018: GEL 489,115). Accumulated amortization as of 31 December 2019 amounts to GEL 291,213 (2018: GEL 238,228). Amortization charge for the year ended 31 December 2019 comprised of GEL 52,985 (2018: 37,285)

(Amounts in Georgian lari)

11. Other assets (continued)

Financial assets are classified as Stage 1. The Stages are described in Note 18. An analysis of changes in the allowances for expected credit losses during the year ended 31 December 2019 is as follows:

Allowance for expected credit losses **as at 1 January 2019**	**(92,930)**
Increase in allowance for expected credit losses	(79,395)
Allowance for expected credit losses as at 31 December 2019	**(172,325)**

12. Loans payable

	2019	*2018*
Amounts due to local banks	86,170,329	55,291,502

Amounts due to local banks, as of 31 December 2019 and 31 December 2018 comprises of loans received from the shareholder and other local banks. Amounts due to local banks as of 31 December 2019 earn interest rate of 4.60% to 13.00% (2018: 5.20% to 13.00%) and has remaining maturity of 49 to 916 days (2018: 182 to 1,281 days).

As of 31 December 2019 amounts due to local banks are secured with finance lease receivables with a carrying value of GEL 132,774,578 (2018: GEL 89,220,842).

13. Debt securities issued

	2019	*2018*
Debt securities issued	72,538,704	36,940,653

In August 2019 the Group issued 2-year bonds of USD 10,000,000 on Georgian Stock Exchange of which was fully sold in 2019. New bonds were issued at par value of USD 1,000, with fixed coupon rate of 7.5% per annum.

In June 2018 the Group issued 3-year bonds of USD 5,000,000 on Georgian Stock Exchange of which only USD 3,701,000 was sold in 2018 and USD 1,232,000 was sold in 2019. These bonds were issued at par value of USD 1,000 as well, with fixed coupon rate of 6.5% per annum.

14. Changes in liabilities arising from financial activities

	1 January 2019	*Receipts*	*Repayments*	*Foreign exchange movement*	*other*	*31 December 2019*
Interest-bearing loans and borrowings (excluding items listed below)	55,291,502	91,694,673	(63,018,934)	1,893,397	309,691	**86,170,329**
Debt securities issued	36,940,653	32,409,020		2,078,516	1,110,515	**72,538,704**
Total liabilities from financing activities	**92,232,155**	**124,103,693**	**(63,018,934)**	**3,971,913**	**1,420,206**	**158,709,033**

	1 January 2018	*Receipts*	*Repayments*	*Foreign exchange movement*	*other*	*31 December 2018*
Interest-bearing loans and borrowings (excluding items listed below)	20,178,770	51,302,540	(17,357,517)	1,034,574	133,135	**55,291,502**
Debt securities issued	26,150,848	8,967,898		1,653,259	168,648	**36,940,653**
Total liabilities from financing activities	**46,329,618**	**60,270,438**	**(17,357,517)**	**2,687,833**	**301,783**	**92,232,155**

The "Other" line includes the effect of accrued but not yet paid interest on other borrowed funds and debt securities issued.

(Amounts in Georgian lari)

15. Equity

As at 31 December 2019 and 31 December 2018 the Group had fully contributed charter capital of GEL 3,180,000.

No dividends are declared in 2019 and 2018.

Additional paid-in capital

Additional paid-in capital is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration as well. Refer to Note 22 for further details of this plan.

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 down payment 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 2019 and 2018.

16. Other income

	2019	*2018*
Insurance compensations	330,079	294,187
Commission income from insurance	297,893	285,966
Income from early-buy out fees	314,415	145,007
Income from operating leases	66,393	34,518
Other	66,101	187,728
	1,074,881	**947,406**

17. Other general and administrative expenses

	2019	*2018*
Insurance expenses	5,114,737	3,079,398
Operating taxes other than income tax	1,531,351	1,251,961
Legal and professional services*	1,126,281	866,554
Advertisement	1,105,116	641,411
Depreciation and amortization expenses	676,588	167,803
Receivable write-off	385,037	34,566
Rent expenses	357,958	326,019
Travel	92,079	59,920
Banking services	32,446	23,753
Repair expenses	24,791	10,561
GPS Expenses	17,849	29,802
Loss from selling assets	-	224,698
Other	589,281	383,362
Total general and administrative expenses	**11,053,514**	**7,099,809**

(Amounts in Georgian lari)

17. Other general and administrative expenses (continued)

Remuneration of the Group's auditor for the years ended 31 December 2019 and 2018 comprises (net of VAT):

	2019	*2018*
Fees for the audit of the Group's annual financial statements for the year ended 31 December	**166,668**	**147,213**
Expenditures for other professional services	7,555	11,509
Total fees and expenditures	**174,223**	**158,722**

18. 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.

The Group holds collateral against net investment in leases and loans to customers. Estimates of value are based on the value assessed at the time of concluding the finance lease and loan agreement, and generally are not updated.

Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for lease impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all lease receivables and other financial assets not held at FVPL. Equity instruments are not subject to impairment under IFRS 9.

The allowance for expected credit losses is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Group has adopted a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group combines its financial assets into Stage 1, Stage 2, Stage 3, as described below:

Stage 1	When financial assets are first recognised, the Group recognises an allowance based on 12mECL. Stage 1 financial assets also include facilities where the credit risk has decreased and the financial asset has been reclassified from Stage 2.
Stage 2	When a financial asset has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. Stage 2 financial assets also include facilities, where the credit risk has decreased and the financial asset has been reclassified from Stage 3.
Stage 3	Financial assets are considered credit-impaired. The Group records an allowance for the LTECL.

The Group considers a financial instrument defaulted and therefore recognises it as Stage 3 (credit-impaired) for ECL calculations in cases of corporate lease portfolio and retail lease portfolio, when the borrower becomes 90 days past due and 30 days past due respectively, on its contractual payments for at least one of the transactions with a counterparty, or there are other indicators of impairment.

The Group calculates ECL on a collective basis for all classes of financial assets which it groups into homogeneous portfolios, based on a combination of internal and external characteristics of the assets.

(Amounts in Georgian lari)

18. Financial risk management (continued)

Credit risk (continued)

IFRS 9 Financial Instruments (continued)

The key elements of the ECL calculations are outlined below:

PD	Is a calculated estimate of the probability of default over a given time interval and is determined based on the risk-segment and the overdue group for a relevant period (12 months or the lifetime of an instrument (Lifetime PD)). Values are determined based on internal statistics using migration matrices). Current and expected changes in the macroeconomic situation are used as forecast information. A default may happen over the assessed period, if the financial asset has not been previously derecognised and is still in the portfolio.
EAD	The amount of assets at risk (EAD) is an estimate of the exposure at default.
LGD	Is the level of losses arising in the case where a default occurs and considering time value of money (discounting at effective interest rate). LGD is based on the difference between the contractual cash flows due and those that the Group receives and would expect to receive, taking into account the asset realisation experience. The values of LGD are determined using models developed on the basis of internal statistics.

The Group calculates the ECLs on the basis of three macroeconomic scenarios (a base case, an upside and a downside), weighted by probability. Each scenario is assigned by a weight based on a combination of statistical analysis and expert judgment regarding the range of possible outcomes represented by the scenarios. Current data and expected changes in macroeconomic variables are used as forecast information. In its ECL macroeconomic model, the Group relies on information of the National Bank of Georgia.

As of 31 December 2019 and 31 December 2018 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.

	Note	*High grade 2019*	*Standard grade 2019*	*Sub-standard grade 2019*	*Impaired 2019*	*Total 2019*
Cash and cash equivalents, except for cash on hand	Stage 1	21,280,992	-	-	-	**21,280,992**
Finance lease receivables						
- Corporate leases	Stage 1	53,396,395	10,281,317	14,360,535	-	**78,038,247**
	Stage 2	-	1,191,606	5,164,854	-	**6,356,460**
	Stage 3	-	-	-	9,138,484	**9,138,484**
- Retail leases	Stage 1	12,838,923	8,980,147	7,134,868	-	**28,953,938**
	Stage 2	-	28,091	3,252,144	-	**3,280,235**
	Stage 3	-	-	-	4,592,092	**4,592,092**

	Note	*High grade 2018*	*Standard grade 2018*	*Sub-standard grade 2018*	*Impaired 2018*	*Total 2018*
Cash and cash equivalents, except for cash on hand	Stage 1	3,541,548	-	-	-	**3,541,548**
Restricted cash	Stage 1	2,793,791	-	-	-	**2,793,791**
Finance lease receivables						
- Corporate leases	Stage 1	39,272,099	10,844,451	7,020,445	-	**57,136,995**
	Stage 2	-	2,594,682	1,649,630	-	**4,244,312**
	Stage 3	-	-	-	1,678,081	**1,678,081**
- Retail leases	Stage 1	10,497,253	5,585,491	4,178,221	-	**20,260,965**
	Stage 2	-	164,476	2,880,789	-	**3,045,265**
	Stage 3	-	-	-	1,715,861	**1,715,861**

(Amounts in Georgian lari)

18. Financial risk management (continued)

Credit risk (continued)

The credit risk assessment policy for financial assets has been determined by the Group for lease receivables exposures are as follows: A financial asset is assessed as a financial asset with high grade:

- For corporate portfolio if a financial asset has historical maximum overdue days less than 30 days during past 12 months;
- For retail portfolio if a financial asset has not been in overdue during last 12 months.

A financial asset is assessed as a financial asset with standard grade:

- For corporate portfolio if a financial asset has historical maximum overdue days more than 30 days and less than 60 days during past 12 months;
- For retail portfolio if a financial asset has historical maximum overdue days less than 10 days during past 12 months.

A financial asset is assessed as a financial asset with sub-standard grade:

- For corporate portfolio if a financial asset has historical maximum overdue days more than 60 days and less than 90 days during past 12 months;
- For retail portfolio if a financial asset has historical maximum overdue days more than 10 days and less than 30 days during past 12 months.

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.

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 2019 and 31 December 2018 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 2019					
Lease liabilities	99,461	257,610	469,879	-	**826,950**
Loans payable	10,100,041	66,149,405	16,842,811	-	**93,092,257**
Debt securities issued	2,107,170	31,669,900	45,444,421	-	**79,221,491**
Total undiscounted financial liabilities	**12,306,672**	**98,076,915**	**62,757,111**	**-**	**173,140,698**

Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
As at 31 December 2018					
Loans payable	3,024,851	30,343,797	27,485,207	-	**60,853,855**
Debt securities issued	944,510	1,571,242	39,526,079	-	**42,041,831**
Total undiscounted financial liabilities	**3,969,361**	**31,915,039**	**67,011,286**	**-**	**102,895,686**

(Amounts in Georgian lari)

18. Financial risk management (continued)

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 2019 and 31 December 2018 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 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 % 2019*	*Effect on profit before tax 2019*	*Appreciation of the exchange rate of GEL against the respective currency in % 2018*	*Effect on profit before tax 2018*
EUR	11.00%	(250,449)	11.00%	(34,650)
USD	10.00%	(960,126)	11.00%	(11,990)

Currency	*Depreciation of the exchange rate of GEL against the respective currency in % 2019*	*Effect on profit before tax 2019*	*Depreciation of the exchange rate of GEL against the respective currency in % 2018*	*Effect on profit before tax 2018*
EUR	-6.00%	136,608	-11.00%	34,650
USD	-5.00%	480,063	-11.00%	11,990

19. 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:

	2019		
	Within one year	*More than one year*	*Total*
Assets			
Cash and cash equivalents	21,280,992	-	**21,280,992**
Finance lease receivables	64,070,920	66,288,536	**130,359,456**
Assets held for leasing	5,986,891	15,481,232	**21,468,123**
Prepayments for assets held for leasing purposes	13,768,107	52,243	**13,820,350**
Property and equipment	-	1,251,015	**1,251,015**
Other assets	1,091,017	277,852	**1,368,869**
Total	**106,197,927**	**83,350,878**	**189,548,805**
Liabilities			
Loans payable	71,971,441	14,198,888	**86,170,329**
Debt securities issued	32,211,074	40,327,630	**72,538,704**
Lease liability	346,312	389,941	**736,253**
Advances from customers	3,556,288	-	**3,556,288**
Other liabilities	2,050,026	-	**2,050,026**
Total	**110,135,141**	**54,916,459**	**165,051,600**
Net	**(3,937,214)**	**28,434,419**	**24,497,205**

(Amounts in Georgian lari)

19. Maturity analysis of assets and liabilities (continued)

	2018		
	Within one year	*More than one year*	*Total*
Assets			
Cash and cash equivalents	3,541,548	-	**3,541,548**
Restricted cash	2,793,791	-	**2,793,791**
Finance lease receivables	43,102,511	44,978,968	**88,081,479**
Assets held for leasing	11,114,733	-	**11,114,733**
Prepayments for assets held for leasing purposes	6,111,981	-	**6,111,981**
Property and equipment	-	749,676	**749,676**
Investment property	-	2,754,221	**2,754,221**
Other assets	1,299,925	250,887	**1,550,812**
Total	**67,964,489**	**48,733,752**	**116,698,242**
Liabilities			
Loans payable	31,357,632	23,933,870	**55,291,502**
Debt securities issued	2,427,949	34,512,704	**36,940,653**
Advances from customers	2,605,947	-	**2,605,947**
VAT and other taxes payable	117,149	-	**117,149**
Other liabilities	1,097,926	-	**1,097,926**
Total	**37,606,603**	**58,446,574**	**96,053,177**
Net	**30,357,886**	**(9,712,822)**	**20,645,065**

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.

20. 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.

(Amounts in Georgian lari)

20. Related party transactions (continued)

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

	2019		2018	
	Parent	*Entities under common control**	*Parent*	*Entities under common control**
Prepayments for assets held for leasing purposes	676,777	-	-	-
Interest income from current accounts	283,004	-	118,872	-
Rent expenses	-	-	58,447	-
Loans payable at 1 January	**17,221,819**	**-**	**14,799,862**	**-**
Loans received during the year	12,140,017	-	15,217,056	-
Loan repayments during the year	(13,721,907)	-	(12,805,048)	-
Other movements / other accruals/(payments)	(23,042)	-	9,949	-
Loans payable at 31 December	**15,616,887**	**-**	**17,221,819**	**-**
Interest expense on loans payable	1,915,254	-	1,391,578	-
Debt securities issued at 1 January	**-**	**466,890**	**-**	**1,395,866**
Debt securities issued during the year	-	1,806,622	-	331,182
Debt securities purchased during the year	-	(377,198)	-	(1,566,067)
Other movements	-	1,544,398	-	305,909
Debt securities issued at 31 December	**-**	**3,440,712**	**-**	**466,890**
Interest expense on debt securities issued	-	183,919	-	29,200
Amounts due to suppliers at 1 January	**-**	**-**	**-**	**185,423**
Origination during the year	-	-	-	-
Settlement during the year	-	-	-	(185,423)
Amounts due to suppliers at 31 December	**-**	**-**	**-**	**-**
Cash and cash equivalents	8,692,304	-	3,540,825	-

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

Compensation of key management personnel comprised (Company's CEO and Deputy CEO) to the following:

	31 December 2019	*31 December 2018*
Salaries and cash bonuses	417,313	250,760
Share-based compensation (Note 22)	157,980	135,212
Total key management compensation	**575,293**	**385,972**

(Amounts in Georgian lari)

21. Fair value measurement

The following tables show analysis of assets 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 2019	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*	*Carrying value*	*Unrecognised gain/(loss)*
Assets for which fair values are disclosed						
Cash and cash equivalents	-	21,280,992	-	**21,280,992**	21,280,992	-
Finance lease receivables	-	-	127,430,071	**127,430,071**	130,359,456	(2,929,385)
Liabilities for which fair values are disclosed						
Lease liabilities	-	-	736,253	**736,253**	736,253	-
Loans payable	-	-	86,170,329	**86,170,329**	86,170,329	-
Debt securities issued	-	72,582,252	-	**72,582,252**	72,538,704	43,548

	Fair value measurement using					
At 31 December 2018	*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 property	-	-	2,754,221	**2,754,221**	2,754,221	-
Assets for which fair values are disclosed						
Cash and cash equivalents	-	6,335,339	-	**6,335,339**	6,335,339	-
Finance lease receivables	-	-	89,571,604	**89,571,604**	88,081,479	1,490,125
Liabilities for which fair values are disclosed						
Loans payable	-	-	55,291,502	**55,291,502**	55,291,502	-
Debt securities issued	-	36,985,970	-	**36,985,970**	36,940,653	45,317

During the years ended 31 December 2019 and 2018, 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.

In September 2019 investment property was sold and closing balance at 31 December 2019 was zero (2018: GEL 2,754,221).

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	*2018*	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average), GEL*	*Type*	*Total area, square meters*	*Sensitivity of the input to fair value, GEL*
Office building	2,754,221	Market comparable method	Price per square metre	4,553-4,730 (4,641)	Land building	**226** **369**	10% increase (decrease) in the rent per square meter would result in increase (decrease) in fair value by 275,422

(Amounts in Georgian lari)

21. Fair value measurement (continued)

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.

22. Share-based payments

In May 2019, according to JSC BG Financial resolution, the Chief Executive Officer and deputy Chief Executive Officer of GLC were awarded by 2,750 (2018: 1,200) ordinary shares of BOGG. The Group considers 29 May 2019 as the grant date. The Group estimates that the fair value of the shares awarded was GBP 17.48 (2018: GBP 35.06) per share.

Shares awarded are subject to three-year vesting with continuous employment being the only vesting condition for the award. The Group has settled its obligation by transferring cash to JSC Galt and Taggart account to purchase and block the shares per vesting condition.

The Group's equity settled share-based payment charge for the year ended 31 December 2019 comprised GEL 173,253 (2018: GEL 146,381) of which GEL 157,980 was recognized as salaries and other employee benefits in the consolidated statement of comprehensive income and other reserve in consolidated statement of financial position (2018: GEL 135,212).

23. Investment property

	2019	*2018*
Opening balance at 1 January	**2,754,221**	**2,745,140**
Net gain on revaluation of investment property	-	18,546
Disposal of the investment property	(2,754,221)	(9,465)
Closing balance	**-**	**2,754,221**

In September 2019 investment property was sold without recognizing any gain or loss from the transaction.

As at 31 December 2018, the fair values of the property are based on valuations performed by independent valuator. Fair value hierarchy disclosures for investment properties are in Note 21.

24. Subsequent events

At the end of 2019 New Corona virus (COVID-19) was spread in China. Cases were reported to the World Health Organisation on 31 December 2019. However, announcement of coronavirus as a global health emergency was not made until 31 January 2020, as significant development and spread of the coronavirus did not take place until January 2020.

The World Health Organization has declared the rapidly spreading coronavirus outbreak a pandemic as of 11 March 2020.

To prevent spreading the virus the Government of Georgia announced state of emergency which significantly reduced economic activities for many sectors. The effects of pandemic evolve over time. The management is not in the position to precisely determine the extent COVID-19 affects the company's financial statements. The most material effect is expected to be increased credit loss due to impairment of lease portfolio caused by the reduced solvency of customers.