JOINT STOCK COMPANY TBC LEASING

International Financial Reporting Standards
Financial Statements and
Independent Auditor's Report

31 December 2018

Independent Auditors' Report

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Independent Auditor's Report

To the Shareholders and Management of JSC TBC Leasing

Our opinion

In our opinion, the financial statements (the 'financial statements') present fairly, in all material respects, the financial position of JSC TBC Leasing (the 'Company') as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include summary of significant accounting policies.

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 Financial Statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

Management is responsible for the other information. Other information comprises Management Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the Management Report.

In connection with our audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In addition, we are required by the Law of Georgia on Accounting, Reporting and Auditing to express an opinion whether certain parts of the Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

Based on the work performed in the course of our audit, in our opinion, in all material respects:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing and complies with respective regulatory normative acts.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers Georgia LLC

For and on behalf of PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Lasha Janelidze (Reg.#SARAS-A-562091)

17 April 2019
Tbilisi, Georgia

JSC TBC Leasing

Statement of Financial Position

(Amounts expressed in thousands of Georgian Lari)

	Note	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	7	18,639	7,865
Due From Banks	8	-	4,432
Prepayments	9	2,490	3,013
Tax assets, net		1,019	2,463
Advances towards leasing contracts	10	36,068	25,758
Net investment in finance lease	11	203,707	143,777
Property and Equipment	12	9,278	3,128
Intangible assets	13	1,160	717
Investment Property	14	2,100	2,299
Assets repossessed from terminated leases	15	7,805	3,328
Other financial assets	16	7,326	4,047
Other assets		92	2
TOTAL ASSETS		**289,684**	**200,829**
LIABILITIES			
Loans from banks and financial institutions	17	204,369	135,782
Advances received from customers	18	17,726	12,907
Debt Securities in issue	19	8,094	7,798
Subordinated loan	20	29,247	15,685
Derivative Financial Instruments		48	-
Other liabilities	21	5,483	9,257
TOTAL LIABILITIES		**264,967**	**181,429**
EQUITY			
Share capital	22	3,059	3,059
Additional paid-in capital		2,150	2,150
Retained earnings		19,508	14,192
TOTAL EQUITY		**24,717**	**19,401**
TOTAL LIABILITIES AND EQUITY		**289,684**	**200,830**

Chief Executive Officer
Gaioz Gogua

Chief Financial Officer
Nugzar Loladze

17 April 2019

The notes set out on pages 5 to 44 form an integral part of these financial statements

	Note	2018	2017
Income from finance lease	23	39,190	22,517
Income from operating lease		2,201	288
Interest expense		(15,356)	(9,345)
Net finance income		**26,035**	**13,460**
Provision for impairment of net investment in finance lease	11	(624)	(263)
Net finance income after provision for impairment of net investment in finance lease		**25,411**	**13,197**
Provision for impairment of other financial assets	16	(4,262)	(1,993)
Other income	24	820	820
Gain on initial recognition of repossessed assets		294	308
Write-down of repossessed assets to net realizable value	15	(506)	(449)
Loss from sale and release of repossessed assets	15	(378)	(111)
Losses net of gains from derivative financial instruments		(56)	-
Foreign exchange translation gains less losses		(227)	967
Administrative and other operating expenses	25	(14,803)	(8,977)
Gain/(loss) from revaluation of investment property	14	(199)	323
Profit before income tax		**6,094**	**4,085**
Income tax expense		-	-
PROFIT FOR THE YEAR		6,094	4,085
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		6,094	4,085

The notes set out on pages 5 to 44 form an integral part of these financial statements

	Share capital	Additional Paid in Capital	Retained earnings	Total equity
Balance at 31 December 2016	**3,059**	**2,150**	**10,107**	**15,316**
Total comprehensive income for the year	-	-	4,085	**4,085**
Balance at 31 December 2017	**3,059**	**2,150**	**14,192**	**19,401**
Impact of adopting IFRS 9 as at 1 January 2018	-	-	(778)	**(778)**
Balance as at 1 January 2018	**3,059**	**2,150**	**13,414**	**18,623**
Total comprehensive income for the year	-	-	6,094	**6,094**
Balance at 31 December 2018	**3,059**	**2,150**	**19,508**	**24,717**

JSC TBC Leasing
Statement of Cash Flows
(Amounts expressed in thousands of Georgian Lari)

	Note	2018	2017
Cash flows from operating activities			
Cash receipts from lessees		145,976	92,655
Cash receipts from lessees as security deposit		18,664	15,404
Cash receipts from sale of repossessed assets		3,208	1,298
Cash receipts from terminated lease contracts		895	1,963
Cash paid for purchase of assets for leasing purposes		(200,544)	(145,217)
Cash paid to suppliers		(6,996)	(5,531)
Cash paid to employees		(2,703)	(1,936)
Cash used in operations		**(41,500)**	**(41,364)**
Interest paid on subordinated loans	26	(1,908)	(1,757)
Interest paid on loans from banks and financial institutions	26	(11,712)	(5,412)
Interest paid on debt securities issued	26	(394)	(585)
Taxes paid		(5,204)	(4,960)
Net cash used in operating activities		**(60,718)**	**(54,078)**
Cash flows from investing activities			
Interest received		42	236
Purchase of property and equipment	12	(7,976)	(275)
Purchase of intangible assets	13	(535)	(161)
Net cash used in investing activities		**(8,469)**	**(200)**
Cash flows from financing activities			
Loans from banks and financial institutions received	26	137,414	119,604
Debt securities redemption		-	(4,877)
Subordinated loans received	26	28,604	-
Subordinated loans repaid	26	(15,611)	-
Cash Received From Deposits (Due From Banks)		4,432	-
Cash Paid For Deposits (Due From Banks)		-	(4,432)
Cash outflow from Derivative financial instruments		(4)	-
Loans from banks and financial institutions repaid	26	(78,771)	(52,834)
Net cash from financing activities		**76,064**	**57,461**
Effect of exchange rate changes on cash and cash equivalents		3,897	(595)
Net increase in cash and cash equivalents		**10,774**	**2,588**
Cash and cash equivalents at the beginning of the year	7	7,865	5,277
Cash and cash equivalents at the end of the year	**7**	**18,639**	**7,865**

The notes set out on pages 5 to 44 form an integral part of these financial statements

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards and Law of Georgia on Accounting, Reporting and Auditing for the year ended 31 December 2018 for JSC TBC Leasing (the "Company").

The Company was incorporated in 2003 and is domiciled in Georgia. The Company is closed joint stock company limited by shares and was set up in accordance with Georgian regulations and is registered by Vake-Saburtalo law court with identification number: 205016560.

Principal activity. The Company's principal business activity is providing finance and operating leases to companies and individuals within Georgia. The company is the largest provider of wide spectre of leasing products to more than 2,500 large, corporate, MSME and individual clients all across Georgia. The company's products include financial and operating leases in agro, medical, construction, service, manufacturing and retail business sectors. The Company offers its products through various type of sales channels including parent bank, official representative dealerships, vendors and direct sales channels. The Company leases various types of assets, from industrial equipment and equipment used in information technology to vehicles, which are purchased from suppliers in Georgia and abroad. The company is a partner of governmental agencies like Enterprise Georgia and Agricultural Projects' Management Agency (APMA), which provide subsidies to companies to assist the growths of their businesses. The company employs over 100 people on permanent bases and operates head office and five retail branches.

As at 31 December, the shareholders of the Company were as follows:

Shareholders	**2018 Ownership interest, %**	**2017 Ownership interest, %**
JSC TBC Bank (the "Parent")	99.61%	99.61%
Minority Shareholder – individual	0.39%	0.39%
Total	**100%**	**100%**

As at 31 December 2018 and 31 December 2017, the ultimate controlling party was TBC Bank Group PLC, registered in the United Kingdom.

Registered address and place of business. The Company's registered office is located at 76m Chavchavadze ave, Tbilisi 0160, Georgia.

Presentation currency. These financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated.

2 Operating Environment of the Company

Company's business is based in Georgia. Emerging economies, such as Georgia's, are subject to rapid change and are vulnerable to global market conditions and economic downturns. As a consequence, operations in Georgia may be exposed to certain risks that are not typically associated with those in developed markets. Nevertheless, over the last few years the Georgian government has embarked on a number of civil, criminal, tax, administrative and commercial reforms that have positively affected the overall investment climate of the country. Today Georgia has an international reputation as a country with a favourable investment environment. Georgia continued to progress in the report "Doing Business 2019" by the World Bank (WB) and International Financing Corporation (IFC), ranking as the 6th easiest country in the world to do business (out of 190), up by 7 steps compared to the previous year rankings. The country improved its ranking in almost all categories, confirming its position as regional leader and outperforming most of the EU economies. Georgia also boasts low corruption levels, a low tax burden, and high transparency of its institutions according to the number of surveys by international institutions. The domestic economic environment remains stable and the banking sector continues to grow, supported by broader macroeconomic stability and attractive business climate. As a result of strong macroeconomic performance, diversified sources of inflows and prudent macroeconomic policies, on February 22, 2019 Fitch Ratings upgraded Georgia's sovereign credit rating from 'BB-' to 'BB' with stable outlook.

3 Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Law of Georgia on Accounting, Reporting and Auditing under the historical cost convention, as modified by the initial recognition of financial instruments and assets received through terminated lease contracts based on fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated (Refer to Note 5). The principal accounting policies in respect of financial instruments and revenue recognition applied till 31 December 2017 are presented below.

In the application of the Company's accounting policies, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

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

New and amended standards and interpretations

In these financial statements, the Company has applied IFRS 9 and IFRS 15, effective for annual periods beginning on or after 1 January 2018, for the first time. The Company has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

IFRS 9 replaced IAS 39 for annual periods on or after 1 January 2018. The Company applied IFRS 9 using modified retrospective approach that means it has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in Note 5, transition table.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except for equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVTPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

3 Significant Accounting Policies (Continued)

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Company's accounting for Net investment in finance lease (NIFL) loss impairment by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to record an allowance for ECLs for all NIFL and other debt financial assets not held at FVTPL, together with lease commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

Financial instruments – key measurement terms. *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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 30.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

3 Significant Accounting Policies (Continued)

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Company classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Company's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Company manages the assets in order to generate cash flows – whether the Company's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Company in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 3 for critical judgements applied by the Company in determining the business models for its financial assets.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 3 for critical judgements applied by the Company in performing the SPPI test for its financial assets.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL. The Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from lease commitments and financial guarantee contracts. The Company measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

3 Significant Accounting Policies (Continued)

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL. For lease commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Company applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 27 for a description of how the Company determines when a SICR has occurred. If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Company's definition of credit impaired assets and definition of default is explained in Note 27. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 27 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Company incorporates forward-looking information in the ECL models.

As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Company measures expected credit losses over the period that the Company is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a dercognition event. The Company may write-off financial assets that are still subject to enforcement activity when the Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – derecognition. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial assets – modification. The Company sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Company assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (eg profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a lease when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Company derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Company also assesses whether the new lease or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

3 Significant Accounting Policies (Continued)

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Company compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Company recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and lease commitments.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Company and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand and balance with banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Inception of the lease. The inception of the lease is considered to be the date of the lease agreement, or the date of commitment, if earlier. For purposes of this definition, a commitment shall be in writing, signed by the parties involved in the transaction, and shall specifically set forth the principal terms of the transaction.

Commencement of the lease term. The commencement of the lease term 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.

Finance leases. Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease is classified as finance lease if:

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

3 Significant Accounting Policies (Continued)

- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and/or
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

Finance income is determined on the basis of the principal amount and interest rate implicit in the lease and is recognized on a systematic basis over the period of the lease agreement.

Operating leases. Where the Company is a lessor in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the Company to the lessee, the lease payments receivable are recognised as rental income on a straight line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. Accounting policy for the assets under operating lease is defined in property and equipment below. Other income to cover additional repair and maintenance expense for the leased assets are incorporated in income from operating lease.

Net investment in finance lease / Finance income recognition. The Company records net investments in finance lease in the amount equal to the net investment in the lease. Net investment in the lease is calculated as the aggregate of the minimum lease payments, representing the amounts guaranteed by the lessee and any unguaranteed residual value (together gross investment in the lease), discounted at the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the present value of the gross investment in the lease to be equal to the fair value of the leased asset.

The difference between the gross investment in the lease and the net investment in the lease represents unearned finance income. The unearned finance income is amortised over the lease term using the discount rate implicit in the lease.

Advances made to the supplier prior to the commencement of the leases, are recorded either as advances towards the lease contracts or prepayments as described below. Down-payment received by the Company from the lessee before the commencement of the lease term is recorded as advances received from customers and adjusted against net investments in finance lease at the commencement of the lease term.

Advances towards leasing contracts. Advances towards leasing contracts comprise interest bearing advance payments made to purchase assets for transfer into leases. Such advances are accounted for at amortised cost less ECL. On commencement of the leases, advances towards leasing contracts are transferred into net investment in finance lease.

Receivables from terminated leases. The Company recognises receivables from terminated contracts at the moment of lease contract termination. These receivables are recognised at amount representing sum of accrued/earned finance income and current part of minimum lease payments already due from lessee at the moment of lease contract termination. Receivables are accounted for at amortised cost less ECL.

Loans issued to lessees. Receivables from terminated leases are reclassified to loans issued to lessees in certain cases when the receivable becomes overdue and there is an agreement between the former lessee and the Company on payment of principal amount together with interest charged. Loans are recognised initially at cost of receivable less ECL and subsequently at amortised cost less ECL.

Prepayments. Prepayments primarily comprise advances paid for insurance of leased assets, assets to be leased under operating lease and other prepayments. Prepayments are accounted for at cost less provision for impairment. If the recoverable amount of prepayment is less than its carrying amount, the carrying amount of prepayment is reduced to its recoverable value. The difference being an impairment loss is recognized as an expense in the profit or loss for the year in which it arises. Impairment of prepayments is assessed on an individual basis.

3 Significant Accounting Policies (Continued)

Other receivables. Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for ECL. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit and loss. When other receivable is uncollectible, it is written off against the allowance account for other receivables. Subsequent recoveries of amounts previously written off are credited in profit and loss.

Assets Repossessed from Terminated Leases. Assets returned as a result of termination of lease contracts are considered as assets, which can be sold or leased again. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight line basis over the lease term. Assets received through terminated contracts are initially recognised at the fair value on the date of the termination of lease contracts and are subsequently re-measured at the lower of cost and net realisable value.

Offset of financial assets and liabilities. Financial assets and liabilities are offset and reported net on the Statement of Financial Position when the Company has a legally enforceable right to set off the recognized amounts and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Property and equipment. Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of property and equipment is calculated, using declining balance method to allocate their cost to their residual values over their estimated useful life, except for vehicles leased out under operating leases, which uses straight-line method. Estimated useful lives are presented in table below:

	Years
Computers and office equipment	5
Vehicles and vehicles leased out under operating lease	5
Furniture and fixtures	5
Leasehold improvements	6.5

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

Intangible Assets. Company's intangible assets have definite useful lives and primarily include capitalised computer softwares and licences.

3 Significant Accounting Policies (Continued)

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the entity are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets are amortised using the straight-line method over their useful lives:

	Years
Leasing ERP Software	10
Other intangible assets	5-7

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Investment property. Investment property is property held by the Company to earn rental income or for capital appreciation and which is not occupied by the Company. Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value updated to reflect market conditions at the end of the reporting period.

Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction.

In the absence of current prices in an active market, the Company considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;
(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Market value of the Company's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

Advances received from customers. Advances from lessees represent payments received prior to the commencement of the lease term and are accounted for at amortised cost. Such advances are netted off with net investments in finance lease at the due date of the first lease payment by the customer.

Liabilities. Trade and other payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost.

Loans from banks and financial institutions. Loans from banks are initially recognized at fair value. Subsequently amounts due are stated at amortized cost using the effective interest rate method.

Subordinated loans. Subordinated loans include long-term loans from banks and are carried at amortized cost using the effective interest rate method. The repayment of subordinated loans ranks after all other creditors in case of liquidation.

3 Significant Accounting Policies (Continued)

Debt securities in issue. Debt securities in issue include bonds issued by the Company. Debt securities are stated at amortized cost. If the Company purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Provisions. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Share capital. Share capital is recognized at cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution.

Contingencies. Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Derivative financial instruments. Derivative financial instruments are carried at their fair value. The Company also enters into offsetting deposits with its counterparty banks to exchange currencies. Such deposits, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the deposits are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk, and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Company does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period.

On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia whereby companies (other than banks, credit unions, insurance companies, microfinance organizations and pawn shops) do not have to pay income tax on their profit earned since 1 January 2017, until that profit is distributed or deemed distributed in a form of dividend.

The income tax at 15% is payable on gross up value (i.e. net dividends shall be grossed up by withholding tax 5%, if applicable, and divided by 0.85) at the moment of the dividend payment to individuals or to non-resident legal entities. Dividends paid to resident legal entities from the profits earned since 1 January 2017 are tax exempted.

Dividends on earnings accumulated during the period from 1 January 2008 to 1 January 2017 is subject to income tax on grossed up value, reduced by respective tax credit calculated as a share of corporate income tax declared and paid on taxable profits vs total net profits for the same period multiplied to the dividend to be distributed. However, tax credit amount should not exceed the actual income tax imposed on dividend distribution.

Income tax arising from distribution of dividends is accounted for as an income tax 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 addition to the distribution of dividends, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of assets or services and representation costs that exceed the maximum amount determined by the Tax Code of Georgia. All advances paid to entities registered in jurisdictions having preferential tax regime and other certain transactions with such entities as well as loans granted to individuals or non-residents are immediately taxable. Such taxes along with other taxes, net of tax credits claimed on assets or services received in exchange for the advances paid to entities registered in jurisdictions having preferential tax regime or recovery of loans granted to individuals or non-residents, are recorded under Taxes other than on income within operating expenses.

3 Significant Accounting Policies (Continued)

Uncertain tax positions. The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions are recorded within the income tax charge.

Value added taxes ("VAT"). Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. Input VAT related to acquisition of Property, Plant and Equipment items are deferred for 5 to 10 years for entities having more than 20% VAT exempted turnover.

Recognition of income and expenses. Income and expenses are recognized on an accrual basis calculated using the effective yield method. Loan origination fees paid on borrowings, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield. Commission income/expenses are recognized on an accrual basis.

Foreign currency translation. The Company's functional and presentation currency is the national currency of Georgia, Georgian Lari ("GEL"). Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at the appropriate spot rates of exchange ruling at the reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

At 31 December 2018 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 2.6766 (2017: USD 1 = GEL 2.5922); EUR 1 = GEL 3.0701 (2017: EUR 1 = GEL 3.1044).

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year, in which the associated services are rendered by the employees of the Company.

Principles applied before 1 January 2018 *(comparatives only)*

Recognition and measurement of financial instruments (comparatives only). The Company recognizes financial assets and liabilities on its Statement of Financial Position when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value, between the trade date and the settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out in this note.

Derecognition of financial assets (comparatives only). The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

3 Significant Accounting Policies (Continued)

Provision for impairment of financial assets accounted for at amortised cost (comparatives only). Impairment losses are recognized in profit or loss when incurred as a result of one or more events ("loss events") that happened after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Company classifies its lessees as significant and non-significant ones for impairment allowance estimation purposes and assesses for impairment individually or collectively.

Specific qualitative and quantitative events are outlined for evidence of impairment of individually and collectively assessed lessees in order to ensure that loss event is identified as early as possible.

If there is evidence that an impairment loss event on significant credit exposures has been incurred, the Company assesses the lessees on an individual basis and measures the amount of the loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted by the exposure's original effective interest rate. The Company uses its best estimates to assess future recoveries, applying scenario analysis and taking into account all relevant information available at the reporting date including adverse changes in general macroeconomic environment or the industry the borrower operates in.

If the Company determines that there is no objective evidence that an individually assessed financial asset incurred an impairment whether significant or not, it assesses such asset for impairment collectively.

In order to calculate impairment allowance for collectively assessed lease pools, the Company estimates the following risk parameters: probability of default and loss given default, based on historical experience. In case of a change in either the internal or external environment and historical data no longer reflect the current situation, the Company adjusts risk parameters on the basis of current observable data to reflect the effects of present conditions that did not affect past periods, and to remove the effects of past conditions that do no longer exist.

The Company reverses previously recognised impairment loss if, once identified, the amount of the impairment loss decreases and the decrease is related to an objective event. The previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss. In order to reverse provisions for individually significant lessees there should be objective evidence that the lessees' financial standing has improved or there is improvement in collateral coverage.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

Management of the Company makes estimates and assumptions that affect the reported amounts of the assets and liabilities of the Company within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Valuation of investment properties. Investment property is stated at its fair value based on reports prepared by an international valuation company at the end of the reporting period.

Due to the current economic environment, the frequency of property transactions is low in the Company's principal market. Nevertheless, in management's assessment there remains sufficient market activity to provide comparable prices for orderly transactions with similar properties when determining the fair value for the Company's investment properties. Further details are disclosed in Note 14.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Assets Repossessed from Terminated Leases. The Company determines the fair value of these assets at the date of termination of the respective lease contract based on a valuation performed by an internal appraiser. The Company determines net realisable value at reporting date as the estimated selling price less all estimated costs necessary to make the sale. The fair value and selling price is determined by the internal and external appraisers using the market comparison approach. For tax reporting purposes the assets are qualified as fixed assets and the initial value is determined per provisions of Georgian Tax Code, depreciated tax value calculated from the purchase date of the asset to be leased by the Company.

ECL measurement. Measurement of ECLs is a significant estimate that involves forecasting future economic conditions, longer the term of forecasts more management judgment is applied and those judgements may be the source of uncertainty. Details of ECL measurement methodology are disclosed in Note 27. The following components have a major impact on credit loss allowance: definition of default, definition of significant increase in credit risk (SICR), probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Company regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Macro-economic scenarios: The Company incorporates forward-looking information with three macro-economic scenarios to calculate unbiased and probability weighted ECL. They represent the Baseline scenario (most likely outcome) and two less likely scenarios, referred as the Upside (better than Baseline) and Downside (worse than Baseline). Weight for the baseline scenario is set to 50% and 25% weight is applied for each less likely scenarios.

IFRS 9 impairment methodology: The Company classifies its portfolio into three stages:

- Stage 1 – assets for which no significant increase of credit risk since initial recognition is identified;
- Stage 2 – assets for which significant increase in credit risk since initial recognition is identified;
- Stage 3 – credit-impaired exposures.

For stage 1 exposures the Company creates 12 months expected credit losses, whereas for stage 2 and stage 3 lifetime expected credit losses are created.

The key impact of IFRS 9 comes from Stage 2 classification and incorporation of forward looking information in allowance calculation. For stage 1 no increase was identified considering that the Company has already been applying 12 months loss identification period (LIP) under IAS 39 methodology.

For the Stage 2 classification purposes the Company applies both quantitative and the qualitative criteria including, but not limited to:

- 30 days past due (DPD) overdue;
- Downgrade of the risk category of the borrower since initial recognition;

Under IFRS 9 methodology the Company updated its default definition criteria as well in order to make it consistent with the Company's internal guidelines. Updated default definition includes criteria such as: (i) 90 DPD overdue (ii) distressed restructuring and (iii) other criteria indicating the borrower's unlikeness to repay the liabilities.

Another significant driver of IFRS 9 impact on allowance level is incorporation of the forward looking information (FLI). The Company incorporates forward looking information for both individual and collective assessment. For FLI purposes the Company defines three scenarios, which are:

- Baseline (most likely)
- Upside (better than most likely)
- Downside (worse than most likely)

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

The Company derives the baseline macro scenario and takes into account projections from various external sources – the National Bank of Georgia, Ministry of Finance, IMF as well as other IFIs - to ensure the alignment to the consensus market expectations.

A change in the weight assigned to base forward looking macro-economic set of assumptions by 10% towards the immediate downside level assumptions would result in an increase in ECL by GEL 13 thousand at 31 December 2018. A corresponding change towards the upside assumptions would result in a decrease in ECL by GEL 6 thousand at 31 December 2018.

A 10% increase or decrease in PD estimates at 31 December 2018 would result in an increase or decrease in total expected credit loss allowances of GEL 41 thousand (GEL 40 thousand). A 10% increase or decrease in LGD estimates at 31 December 2018 would result in an increase or decrease in total expected credit loss allowances of GEL 165 thousand (GEL 165 thousand).

The Company calculates expected impairment losses for each scenario. In order to come up with the final expected credit loss figures probability weighted average approach is applied where probabilities of each scenario are used as weights.

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 9 "Financial Instruments". The Company adopted IFRS 9, Financial Instruments, from 1 January 2018. It was elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standard, 1 January 2018. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period are described in Note 3. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 3.

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	Measurement category		**Carrying value per IAS 39 (closing balance at 31 December 2017)**	**Effect**				**Carrying value per IFRS 9 (opening balance at 1 January 2018)**
				Remeasurement		**Reclassification**		
In thousands of GEL	**IAS 39**	**IFRS 9**		**ECL***	**Other**	**Mandatory**	**Voluntary**	
Investment in Finance Lease	FLR	AC	145,236	-	-	-	-	**145,236**
Allowance for impairment			(1,459)	(778)	-	-	-	**(2,237)**
Total Investment in Finance Lease			**143,777**	**(778)**	**-**	**-**	**-**	**142,999**

5 Adoption of New or Revised Standards and Interpretations (Continued)

Adoption of IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018) and Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The Company has adopted IFRS 15, *Revenue from Contracts with Customers*, with the date of initial application of 1 January 2018. The new standard was applied using the modified retrospective method, with the cumulative effect recognised in retained earnings on 1 January 2018. The standard introduced the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The standard did not have a material impact on the Company.

The following amended standards became effective for the Company from 1 January 2018, but did have no impact:

- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 - "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 – "Transfers of Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Company has not early adopted.

Minor amendments to IFRSs

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company decided that it will apply the standard using the modified retrospective method, without restatement of comparatives. The Company will recognise a right of use asset of GEL 1,248 thousand against a corresponding lease liability on 1 January 2019. A reconciliation of the operating lease commitments disclosed in Note 31 to this liability is as follows:

	31 December 2018 / 1 January 2019
Total future minimum lease payments for non-cancellable operating leases	1,241
- Effect of discounting to present value	(138)
Total effect on the Right of the use asset and Lease Liability	**1,103**

6 New Accounting Pronouncements (Continued)

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The company does not expects any impact of the new standard in its financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The company does not expects any impact of the new standard in its financial statements.

7 Cash and Cash Equivalents

	31 December 2018	31 December 2017
Current accounts with banks	18,639	7,865
Cash and cash equivalents	**18,639**	**7,865**

At 31 December 2018, cash and cash equivalents of GEL 17,371 thousand (2017: GEL 6,920 thousand) are held on the Company's current accounts with JSC TBC Bank.

The credit quality of cash and cash equivalents balances may be summarized as follows at 31 December:

	31 December 2018	31 December 2017
Current accounts with banks with "BB-" to "BB+" rating	17,619	7,370
Current accounts with banks with "B-" to "B+" rating	26	185
Current accounts with banks unrated	994	310
Cash and cash equivalents	**18,639**	**7,865**

As of 31 December 2018, no cash balances were pledged as collateral for loans obtained from banks and financial institutions. Cash balances pledged as collateral in previous year are disclosed in Note 17.

The information on related party balances and transactions is disclosed in Note 32.

8 Due From Banks

	31 December 2018	31 December 2017
Placements with banks with original maturities of more than three months	-	4,432
Less: Provision for impairment	-	-
Total due from banks	**-**	**4,432**

Amounts due from banks include placements with original maturities of more than three months that are collateralised, as of 31 December 2018 no such placement had place.

9 Prepayments

	31 December 2018	31 December 2017
Prepaid insurance for leasing assets	2,463	1,966
Other prepayments	24	79
Prepayments for assets to be leased under operating lease	3	968
Total prepayments	**2,490**	**3,013**

10 Advances towards Leasing Contracts

Advances towards leasing contracts at the year-end comprised GEL 36,068 thousand as at 31 December 2018 (2017: GEL 25,758 thousand). The advances towards leasing contracts are all current, subsequently reclassified to net investment in finance lease usually within one to three months period after the reporting date.

Refer to Note 30 for the estimated fair value of advances towards leasing contracts.

11 Net Investments in Finance Lease

Net and gross investments in finance lease are as follows:

	31 December 2018	31 December 2017
Gross investment in finance lease	270,870	191,707
Unearned finance income	(64,706)	(46,471)
Investment in finance lease	**206,164**	**145,236**
Allowance for impairment	(2,457)	(1,459)
Total net investments in finance lease	**203,707**	**143,777**

Gross investments in finance lease are as follows:

	31 December 2018	31 December 2017
Due in less than 1 year	122,218	85,818
Due in between 1 and 5 years	148,652	105,889
Total gross investments in finance lease	**270,870**	**191,707**

The table below contains an analysis of the credit risk exposure of financial lease receivable. The carrying amount of financial lease receivable at 31 December 2018 below also represents the company's maximum exposure to credit risk on these assets:

In thousands of Russian Roubles	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Investments in Finance Lease risk category				
- Very Low	143,980	-	-	**143,980**
- Low	32,951	2,350	-	**35,301**
- Moderate	-	6,712	-	**6,712**
- High	-	1,799	-	**1,799**
- Default	-	-	18,372	**18,372**
Gross carrying amount	**176,931**	**10,861**	**18,372**	**206,164**
Credit loss allowance	(629)	(230)	(1,598)	**(2,457)**
Carrying amount	**176,302**	**10,631**	**16,774**	**203,707**

11 Net Investments in Finance Lease (Continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for Investments in finance lease between the beginning and the end of the reporting period:

	Credit loss allowance				**Gross carrying amount**			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
At 31 December 2017	**480**	**50**	**929**	**1,459**	**128,604**	**11,471**	**5,161**	**145,236**
IFRS 9 effect	355	411	12	778	-	-	-	-
At 1 January 2018	**835**	**461**	**941**	**2,237**	**128,604**	**11,471**	**5,161**	**145,236**
Transfers:								
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1	357	(357)	-	-	1,052	(1,033)	(19)	-
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(9)	9	-	-	(3,996)	4,078	(82)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(367)	(20)	387	-	(10,605)	(4,533)	15,138	-
New originated or purchased	472	95	240	807	119,650	7,347	5,228	132,225
Derecognised during the period	(103)	(81)	(717)	(901)	(36,040)	(5,373)	(3,541)	(44,954)
Partial repayment	-	-	-	-	(24,985)	(1,468)	(4,887)	(31,340)
Foreign currency effect	-	-	-	-	1,250	94	289	1,633
Changes due to change in credit quality	(558)	122	748	312	-	-	-	-
Other movements	-	-	-	-	2,003	277	1,085	3,365
At 31 December 2018	**627**	**229**	**1,599**	**2,455**	**176,933**	**10,860**	**18,372**	**206,165**

The movements in the provision for impairment of net investments in finance lease as at 31 December 2017 are as follows:

	31 December 2017
Provision for impairment at the beginning of the year	**1,292**
Provision of impairment during the year	263
Amounts written off during the year as uncollectible	(96)
Provision for impairment at the end of the year	**1,459**

11 Net Investments in Finance Lease (Continued)

Analysis by credit quality of net investment in finance leases are as follows:

	31 December 2017
Neither past due not impaired	
Customers with more than two years of experience	38,071
New Customers	78,409
Total current and not impaired	**116,480**
Past due but not impaired	
- Less than 30 days overdue	16,653
- 30 to 90 days overdue	8,480
Total past due but not impaired	**25,133**
Impaired contracts – gross	
- 30 to 90 days overdue	343
- 90 to 180 days overdue	2,223
- 180 days to 360 days overdue	339
- More than 360 days overdue	718
Total impaired(*)	**3,623**
Total investment in finance lease – gross	**145,236**
Provision for impairment losses	(1,459)
Total Net investment in finance lease	**143,777**

(*)Total impaired leases include both collectively and individually impaired leases

The Company's policy was to classify each lease as 'current and not impaired' or 'past due but not impaired' until a specific objective evidence of impairment of the lease is identified. The primary factors that the Company considered whether a lease is impaired were deterioration of financial position of lessee, its overdue status and realisability of the leased asset.

The Company normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Company holds title to the leased assets during the lease term. The title to the asset under finance lease contract is transferred to the lessees at the end of the contractual term subject to full payment of lease obligations. Generally the lease terms are up to five years.
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are:

- Leased assets (inventory and equipment)
- Down payment
- Real estate properties

The financial effect of collateral is presented by disclosing the collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the assets' carrying value("over-collateralized assets") and (ii) those assets where collateral and other credit enhancements are less than the assets' carrying value ("under-collateralized assets").

The effect of collateral at 31 December 2018:

	Over-Collateralised assets		**Under-Collateralised assets**	
	Carrying value of the assets	*Fair value of collateral*	*Carrying value of the assets*	*Fair value of collateral*
Investment in finance lease - gross	166,476	253,613	39,688	33,460

The effect of collateral at 31 December 2017:

	Over-Collateralised assets		**Under-Collateralised assets**	
	Carrying value of the assets	*Fair value of collateral*	*Carrying value of the assets*	*Fair value of collateral*
Investment in finance lease - gross	126,186	194,471	19,049	14,390

11 Net Investments in Finance Lease (Continued)

Certain leases receivable and advances towards leasing contracts as at 31 December 2018 were pledged as collateral for loans obtained from banks and other financial institutions (Note 17).

Fair value of collateral in respect of past due but not impaired leases receivable and in respect of impaired leases receivable assessed by internal appraisers within the credit department on annual basis was as follows at 31 December:

	31 December 2017
Fair value of collateral - past due but not impaired	37,891
Fair value of collateral - impaired	5,117

12 Property and Equipment

	Land	Computer and office equipment	Furniture and Fixtures	Vehicles	Vehicles leased out under operating lease	Leasehold improvem ent	Total
Cost at 1 January 2017	10	125	209	123	-	160	627
Accumulated Depreciation	-	(51)	(30)	(29)	-	(25)	(135)
Carrying amount at 1 January 2017	**10**	**74**	**179**	**94**	**-**	**135**	**492**
Additions	-	108	42	188	2,436	92	2,866
Disposals	-	(3)	-	(19)		-	(22)
Depreciation Charge	-	(27)	(44)	(21)	(88)	(35)	(215)
Elimination of accumulated depreciation on disposals	-	2	-	5	-	-	7
Carrying amount at 31 December 2017	**10**	**154**	**177**	**247**	**2,348**	**192**	**3,128**
Cost at 31 December 2017	10	230	251	292	2,436	252	3,471
Accumulated Depreciation	-	(76)	(74)	(45)	(88)	(60)	(343)
Carrying amount at 31 December 2017	**10**	**154**	**177**	**247**	**2,348**	**192**	**3,128**
Additions	-	30	81	212	7,566	87	7,976
Disposals	-	-	-	(52)	(236)	(221)	(509)
Transfer to Financial Lease or Repossessed Assets	-	-	-	-	(514)	-	(514)
Depreciation Charge		(32)	(42)	(61)	(815)	(35)	(985)
Elimination of accumulated depreciation on disposals	-	-	-	22	80	80	182
Carrying amount at 31 December 2018	**10**	**152**	**216**	**368**	**8,429**	**103**	**9,278**
Cost at 31 December 2018	10	260	332	452	9,252	118	10,424
Accumulated Depreciation	-	(108)	(116)	(84)	(823)	(15)	(1,146)
Carrying amount at 31 December 2018	**10**	**152**	**216**	**368**	**8,429**	**103**	**9,278**

13 Intangible Assets

	Leasing ERP software	Other intangible assets	Total
Cost at 1 January 2017	486	36	522
Accumulated Depreciation	-	(14)	(14)
Carrying amount at 1 January 2017	**486**	**22**	**508**
Additions	227	-	227
Amortization Charge	-	(18)	(18)
Carrying amount at 31 December 2017	**713**	**4**	**717**
Cost at 31 December 2017	713	36	749
Accumulated Depreciation	-	(32)	(32)
Carrying amount at 31 December 2017	**713**	**4**	**717**
Additions	432	21	453
Amortization Charge	(9)	(1)	(10)
Carrying amount at 31 December 2018	**1,136**	**24**	**1,160**
Cost at 31 December 2018	1,145	57	1,202
Accumulated Depreciation	(9)	(33)	(42)
Carrying amount at 31 December 2018	**1,136**	**24**	**1,160**

As at 31 December 2018 and 2017 leasing ERP software was in testing phase and respectively no amortization expense was charged.

14 Investment Property

As of 31 December 2018 investment property comprised of a land plot (10,839 sq/m) with buildings (2,847 sq/m) acquired on public auction by the Company at 25 December 2012. The cost of acquisition was GEL 890,513. Initially the property was recognised as assets repossessed from terminated leases with the purpose to use in settlement of outstanding balance of net investment in finance lease from the lessee (JSC Gldanula). However, the lessee refused to cover existing liability and applied to the Court in order to cancel the auction results. In 2016 the Court decided in favour of the Company, therefore the Company's Management reassessed the purpose of holding the property and concluded to keep it in ownership for capital appreciation purposes, therefore the property was reclassified to investment property. In 2017 and 2018 an entity related to the previous lessee has used the right to appeal the above decision in Appeals and Supreme Court, but both instances decided in favour of the Company again. In February of 2019 based on Supreme Court's decision encumbrance has been removed from property. As of 31 December 2018 the Company had not started any development or construction work over this property and neither determined its future use. As such the acquired property is regarded as held for capital appreciation.

As at 31 December 2018 the fair value of investment property was estimated at GEL 2,100 thousand. The valuation was carried out by an independent firm of valuators which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), for which certain adjustments were applied to prices based on the differences between the Company's assets and the comparative analogues. The fair value belongs to level 3 measurements in the fair value hierarchy. The loss of GEL 199 thousand from revaluation of investment property at fair value was recognised in profit and loss in 2018 year.

14 Investment Property (Continued)

	Transferred from repossessed assets at cost	Fair value as of 31 December 2018	Valuation technique	Other key informa-tion	Unobserv able inputs	Range of unobservable inputs (weighted average)
Investment property	891	2,100	Sales comparison approach	Land and building	Price per square meter	120 - 170

Investment property as at 31 December 2017:

	Transferred from repossessed assets at cost	Fair value as of 31 December 2017	Valuation technique	Other key informa-tion	Unobserv able inputs	Range of unobservable inputs (weighted average)
Investment property	891	2,299	Sales comparison approach	Land and building	Price per square meter	130 - 180

15 Assets Repossessed from Terminated Leases

	31 December 2018	31 December 2017
Carrying value at the beginning of the year	3,328	2,573
Assets repossessed from terminated leases during the year at fair value	13,044	4,917
Disposal through sales	(2,736)	(1,596)
Disposal through transfer to new leases	(5,325)	(2,117)
Write down to net realizable value	(506)	(449)
Carrying amount at the end of the year	**7,805**	**3,328**

Write down to net realisable value of GEL 506 thousand (2017: GEL 449 thousand) is the effect of reassessment of net realisable value on the repossessed assets from terminated leases as of the balance sheet date, which are accounted as inventory defined by accounting policy. Loss from sale and release of repossessed assets comprised GEL 378 thousand and GEL 111 thousand for 2018 and 2017 years respectively.

16 Other Financial Assets

	31 December 2018	31 December 2017
Gross receivables from terminated lease	11,740	4,742
Less: Provision for impairment of receivables from terminated leases	(7,651)	(3,403)
Total carrying amount of receivable from terminated leases at AC	**4,089**	**1,339**
Gross other receivables	4,379	3,380
Less: Provision for other receivables	(2,550)	(1,722)
Total carrying amount of other receivables at AC	**1,829**	**1,658**
Gross loans issued to lessees	3,425	3,881
Less : Provision for loans issued to lessees	(2,017)	(2,831)
Total carrying amount of loans issued to lessees at AC	**1,408**	**1,050**
Total other financial assets	**7,326**	**4,047**

Presentation of other financial assets gross carrying amount and credit loss allowance by IFRS 9 stages are as follows:

	Credit loss allowance				**Gross carrying amount**			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
At 31 December 2017	-	-	**7,956**	**7,956**	-	-	**12,003**	**12,003**
IFRS 9 effect	-	-	-	-	-	-	-	-
At 1 January 2018	-	-	**7,956**	**7,956**	-	-	**12,003**	**12,003**
Transfers:								
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1	-	-	-	-	-	-	-	-
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	-	-	-	-	-	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-	-	-	-
New originated or purchased	-	-	6,755	6,755	-	-	11,673	**11,673**
Derecognised during the period	-	-	(2,073)	(2,073)	-	-	(3,566)	**(3,566)**
Partial repayment	-	-			-	-	-	-
Foreign currency effect	-	-			-	-	-	-
Changes due to change in credit quality	-	-	(420)	(420)	-	-	-	-
Other movements	-	-			-	-	(566)	**(566)**
At 31 December 2018	-	-	**12,218**	**12,218**	-	-	**19,544**	**19,544**

16 Other Financial Assets (Continued)

Analysis by credit quality of other financial assets as at 31 December 2017 are as follows:

	31 December 2017
Total neither past due nor impaired	-
Past due but not impaired	
Other receivables	1,240
- less than 90 days overdue	1,240
Total past due but not impaired (gross)	**1,240**
Receivables individually determined to be impaired	
Receivables from terminated leases	4,742
- more than 90 days overdue	4,742
Other receivables	2,140
- more than 90 days overdue	2,140
Loans issued to lessees	3,881
- more than 90 days overdue	3,881
Total individually impaired (gross)	**10,763**
Less impairment provision	(7,956)
Total other financial assets	**4,047**

17 Loans from Banks and Financial Institutions

	Maturities	31 December 2018	31 December 2017
Loans from TBC Bank	04.12.2020	45,359	21,542
Loans from IFAD	01.02.2021	4,384	4,237
Loans from BSTDB	21.12.2020	10,682	-
Loans from ResponsAbility	01.09.2019	8,402	25,721
Loans from MicroVest	22.11.2021	9,260	-
Loans from Symbiotics	09.07.2021	34,127	30,410
Loans from Triple Jump	15.12.2020	18,789	22,104
Loans from Pasha Bank	25.12.2020	14,725	3,897
Loans from BlueOrchard	04.12.2020	8,997	12,984
Loans from VTB Bank	17.08.2020	14,894	3,199
Loans from TBC Kredit	10.08.2018	-	5,198
Loans from Green for Growth Fund	15.09.2020	5,410	6,490
Loans From Ish Bank	08.05.2020	10,313	-
Loans From Liberty	25.02.2019	8,028	-
Loans From Cartu	16.11.2019	3,012	-
Loans From Halyk	19.12.2019	7,987	-
Total loans from banks and financial institutions		**204,369**	**135,782**

Loans from banks and financial institutions are secured by certain cash and cash equivalents, certain leases receivable and advances towards leasing contracts as detailed in Note 7 and 11. As of 31 December 2018 amount of cash and cash equivalents pledged as collateral comprised 0 GEL (2017: GEL 36 thousand), the amount of due from banks pledged as collateral comprised 0 GEL (2017: GEL 4,432 thousand), the amount of gross investment in leases pledged as collateral comprised 193,356 thousand GEL (2017: GEL 145,249 thousand) and the amount of advances towards leasing contracts pledged as collateral comprised 24,962 thousand GEL (2017: GEL 6,284 thousand).

The Company is obliged to comply with certain financial covenants stipulated by the loan agreements. At 31 December 2018 and 2017, management of the Company believes that the Company was in compliance with those covenants.

As at 31 December 2018 accrued interest payable included in loans from banks and financial institutions amounted to GEL 1,726 thousand (2017: GEL 936 thousand).

Refer to Note 30 for the estimated fair value of loans from banks and financial institutions. The information on related party balances and transactions is disclosed in Note 32.

18 Advances Received from Customers

Advances from customers that were outstanding at the year-end comprised GEL 17,726 thousand as at 31 December 2018 (2017: GEL 12,907 thousand). By default the Company requires customers to pay in advance at least 20% of total cost of the leased asset. These amounts are collected from the Company's customers in advance upon signing of the lease agreements and are used for financing part of lease asset value during its acquisition and maintained as buffer until the leased assets are transferred to the customer. Subsequent to physical transfer of the leased assets, the amounts received from customers as advances are credited against net investment in lease receivable from the same customer. GEL 9,522 thousand as at 31 December 2018 (2017: GEL 10,294 thousand) represents security deposit received from customers in advance, while the remaining part of balance is lease payments received in advance and advances received for sale of repossessed assets.

19 Debt Securities in Issue

	Currency	Maturity date	31 December 2018	31 December 2017
Bonds issued on domestic market	USD	22.07.2019	8,094	7,798
Total debt securities in issue			**8,094**	**7,798**

Refer to Note 30 for the disclosure of the fair value of debt securities in issue.

20 Subordinated Loans

	Maturities	31 December 2018	31 December 2017
Subordinated loans from TBC	31.07.2023	2,445	13,072
Subordinated Loans From Opportunity	05.12.2018	-	2,613
Subordinated Bonds	25.01.2023	26,802	-
Total Subordinated Loan		**29,247**	**15,685**

As at 31 December 2018, accrued interest payable included in subordinated loans amounted to GEL 307 thousand (2017: GEL 108 thousand).

Refer to Note 30 for the estimated fair value of subordinated loans. The information on related party balances and transactions is disclosed in Note 32.

21 Other Liabilities

	31 December 2018	31 December 2017
Liabilities to asset providers	3,695	8,181
Accrued expenses	355	172
Liabilities to service providers	589	419
Total financial liabilities	**4,639**	**8,772**
Bonuses payable	844	485
Other liabilities	**5,483**	**9,257**

Liabilities to assets providers represent accounts payable balance for assets received for leasing purposes.

22 Share Capital

The share capital of the Company as at 31 December 2018 was GEL 3,059 thousand (2017: GEL 3,059 thousand). Total number of authorised, issued and paid shares comprised 3,059 common shares with par value of GEL 1,000 each. Each share carries one vote. There was no movement on share capital during 2017 and 2018 years.

23 Income from Finance Lease

	2018	2017
Interest income from finance lease	37,337	21,395
Income from penalties on finance lease contracts	1,853	1,122
Total income from finance lease	**39,190**	**22,517**

24 Other Income

	2018	2017
Interest income on deposit	327	166
Income from discounts	197	-
Income from conciliations	135	-
Reimbursement & bonus income from insurance companies	70	624
Income from penalties	61	20
Other income	30	10
Total other income	**820**	**820**

25 Administrative and Other Operating Expenses

	2018	2017
Staff costs	3,937	2,641
Insurance expenses	3,476	1,875
Taxes other than income tax	2,289	1,410
Depreciation and amortisation	996	233
Professional services	926	666
Occupancy and rent	511	286
Expenses on Assets maintenance	504	109
Advertising costs	424	305
Leased assets registration fee	311	319
Bank charges	165	127
Land and Buildings maintenance	52	20
Withholding tax on non-residents	10	63
Other expenses	1,202	923
Total administrative and other operating expenses	**14,803**	**8,977**

26 Net Debt Reconciliation

	Liabilities from financing activities			
	Loans from banks and financial institutions	Debt Securities in Issue	Subordinated Loan	Total
Net debt at 31 December 2017	**135,782**	**7,798**	**15,685**	**159,265**
Cash flows	51,363	(394)	11,085	62,054
Foreign exchange adjustments	4,924	93	352	5,369
Other non-cash movements	12,300	597	2,125	15,022
Net debt at 31 December 2018	**204,369**	**8,094**	**29,247**	**241,710**

The table above sets out an analysis of our debt and the movements in our debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

27 Financial Risk Management

The risk management function within the Company is carried out in respect of financial risks (credit, liquidity and market risks (including currency and interest rate risks)), geographical, operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's entering into finance lease contracts and other transactions with counterparties giving rise to financial assets. Maximum exposure to credit risk equals the carrying amounts of the financial assets recognised in Statement of Financial Position.

Risk management and monitoring is performed within set limits of authority, by the Credit Committee of the Parent and the Company's Management Board. The Parent's Credit Committee is involved in decisions of issue leases with value more than USD 300,000. Before any application is made to the Credit Committee or the Company's Management Board, all recommendations on lease processes (lessee's limits approved, or amendments made to lease agreements, etc.) are reviewed and approved by the risk-manager or the Credit Department.

27 Financial Risk Management (Continued)

The Company normally structures its finance lease contracts so that the lessee makes a prepayment of 20% of the equipment purchase price at the inception of the lease term. The Company holds title to the leased assets during the lease term. The title to assets under finance lease contracts passes to the lessees at the end of those contracts' terms.

Risks related to the leased assets such as damage caused by various reasons, theft and other are generally insured. Management periodically assesses the financial performance of the lessees by monitoring debts outstanding and analysing their financial reports. The primary factors that the Company considers whether a lease is impaired is its overdue status, lessee financial performance and liquidity and value of leased asset. Management believes that the provision created for net investment in finance leases is adequate to absorb potential losses existing in the lease portfolio at the reporting date.
The management also assesses collectability of other financial assets on quarterly basis, based on the financial performance of debtors and other factors, such as results of legal cases at court. Management believes that provision created for other financial assets is adequate at the reporting date.

Expected credit loss (ECL) measurement: ECL is a probability-weighted estimate of the present value of future cash shortfalls. An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Company: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

The Company uses is a three-stage model for ECL measurement and classifies its borrowers across three stages: The Company classifies its exposures as Stage 1 if no significant deterioration in credit quality occurred since initial recognition and the instrument was not credit-impaired when initially recognized. The exposure is classified to Stage 2 if the significant deterioration in credit quality was identified since initial recognition but the financial instrument is not considered credit-impaired. The exposures for which the credit-impaired indicators have been identified are classified as Stage 3 instruments. The Expected Credit Loss (ECL) amount differs depending on exposure allocation to one of the Stages. In the case of Stage 1 instruments, the ECL represents that portion of the lifetime ECL that can be attributed to default events occurring within the next 12 months from the reporting date. In case of Stage 2 instruments, the ECL represents the lifetime ECL, i.e. credit losses that can be attributed to possible default events during the whole lifetime of a financial instrument. Generally, lifetime is set equal to the remaining contractual maturity of the financial instrument. Factors such as existence of contractual repayment schedules, options for extension of repayment maturity and monitoring processes held by the Company affect the lifetime determination. In case of Stage 3 instruments, default event has already incurred and the lifetime ECL is estimated based on the expected recoveries.

The Company utilizes two approaches for ECL measurement – individual assessment and collective assessment. Individual assessment is mainly used for credit impaired individually significant borrowers. Additionally, the Company may arbitrarily designate selected exposures to individual measurement of ECL based on the Company's credit risk management or underwriting departments' decision.

The Company uses the discounted cash flow (DCF) method for the determination of recovery amount under individual assessment. In order to ensure the accurate estimation of recoverable amount the Company may utilize scenario analysis approach. Scenarios may be defined considering the specifics and future outlook of individual borrower, sector the borrower operates in or changes in values of collateral. In case of scenario analysis the Company forecasts recoverable amount for each scenario and estimates respective losses. Ultimate ECL is calculated as the weighted average of losses expected in each scenario, weighted by the probability of scenario occurring.

Exposure at default (EAD). The EAD represents estimation of exposure to credit risk at the time of default occurring during the life of financial instrument. The EAD parameter used for the purpose of the ECL calculation is time-dependent, i.e. the Company allows for various values of the parameter to be applied to subsequent time periods during the lifetime of an exposure. Such structure of the EAD is applied to all Stage 1 and Stage 2 financial instruments. In case of Stage 3 financial instruments, the EAD vector is one-element with current EAD as the only value.

27 Financial Risk Management (Continued)

Probability of default (PD). Probability of default parameter describes the likelihood of a default of a facility over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its contractual debt obligations. The PD parameter is time-dependent (i.e. has a specific term structure) and is applied to all non-defaulted contracts.
The model is based on the estimation of short-term and long-term PD estimates. The former is estimated on the yearly default rate observed for a period that is considered representative of short-term default propensity. The lessee's risk group differentiates the parameter3. The latter is representative of the long-term default propensity of Leasing company clients regardless of their risk group assignment.
Leasing company defines the risk groups based on selected criteria (e.g. current days past due status of the lessee) so that the separate risk groups perform significantly different in terms of the default propensity.
The model assumes that the PD for the next yearly period after the reporting date is equal to the short-term PD estimate and depends on the risk group assignment. Long-term PD estimate is used for yearly periods starting from the 4th year after the reporting date, while linear interpolation of PDs in assumed in-between.
For Long-term PD estimation purposes the Leasing Company applies default rates. Default rates are calculated as volume of defaulted exposures within the period divided by the total performing exposures at the beginning of the period.

Loss given default (LGD). The LGD parameter represents the share of an exposure that would be irretrievably lost if a borrower defaults. For Stage 1 and Stage 2 financial instruments, the LGD is estimated for each period in the instrument's lifetime and reflects the share of the expected EAD for that period that will not be recovered over the remaining lifetime of the instrument after the default date. For Stage 3 financial instruments, the LGD represents the share of the EAD as of reporting date that will not be recovered over the remaining life of that instrument.
In order to estimate LGD, the Leasing Company is estimating recoverable amount from the collateral. In order to estimate recoverable amount from the collateral, leasing company appraises leased assets and discounts them using effective interest rate over the realization period. Leasing company calculates LGD, which is time dependent considering that the company projects the value of the collateral over time. Collateral is adjusted based on the amortization coefficient. The coefficient is based on expert judgement and is different based on the type of asset

Market risk. The Company takes on exposure to market risks. Market risks arise from open positions in currency and interest rate, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a monthly basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Management Board controls currency risk by management of the open currency position on the estimated basis of Georgian Lari devaluation and other macroeconomic indicators, which gives the Company an opportunity to minimize losses from significant currency rates fluctuations toward the national currency.

27 Financial Risk Management (Continued)

The Company's exposure to foreign currency exchange rate risk as at 31 December 2018 is presented in the table below:

	GEL	USD	EUR	Other	TOTAL
Cash and cash equivalents	6,866	11,117	605	51	18,639
Due from banks	-	-	-	-	-
Net investment in finance lease	63,740	116,997	22,970	-	203,707
Advances towards leasing contracts	17,382	11,173	7,513	-	36,068
Derivative Financial Instruments	3,642	4,599	-	-	8,241
Other financial assets	2,667	3,679	980	-	7,326
Total financial assets	**94,297**	**147,565**	**32,068**	**51**	**273,981**
Loans from banks and financial institutions	79,940	107,475	16,954	-	204,369
Debt Securities in issue	-	8,094	-	-	8,094
Advances received from customers	12,477	4,058	1,191	-	17,726
Subordinated loan	2,445	26,802	-	-	29,247
Derivative Financial Instruments	-	-	8,289	-	8,289
Other financial liabilities	1,960	320	3,203	-	5,483
Total financial liabilities	**96,822**	**146,749**	**29,637**	**-**	**273,208**
Net open currency position	**(2,525)**	**816**	**2,431**	**51**	**773**

The Company's exposure to foreign currency exchange rate risk as at 31 December 2017 is presented in the table below:

	GEL	USD	EUR	Other	TOTAL
Cash and cash equivalents	2,712	5,104	15	34	7,865
Due from banks	4,432	-	-	-	4,432
Net investment in finance lease	34,856	108,354	567	-	143,777
Advances towards leasing contracts	6,029	19,729	-	-	25,758
Derivative Financial Instruments	-	-	-	-	-
Other financial assets	493	3,554	-	-	4,047
Total financial assets	**48,522**	**136,741**	**582**	**34**	**185,879**
Loans from banks and financial institutions	30,722	105,060	-	-	135,782
Debt Securities in issue	-	7,798	-	-	7,798
Advances received from customers	6,752	6,155	-	-	12,907
Subordinated loan	7,858	7,827	-	-	15,685
Derivative Financial Instruments	-	-	-	-	-
Other financial liabilities	2,539	6,718	-	-	9,257
Total financial liabilities	**47,871**	**133,558**	**-**	**-**	**181,429**
Net open currency position	**651**	**3,183**	**582**	**34**	**4,450**

To manage currency risk management sets limits and on monthly basis reviews short and long currency position within those limits.

Currency sensitivity analysis. The following table details the Company's sensitivity to a 10% (2017: 10%) increase and decrease in the USD against the GEL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates.

	31 December 2018		31 December 2017	
	Impact on profit or loss before tax	**Impact on equity**	**Impact on profit or loss before tax**	**Impact on equity**
US Dollar strengthening by 10% (2017: 10%)	82	82	274	274
US Dollar weakening by 10% (2017: 10%)	(82)	(82)	(274)	(274)

27 Financial Risk Management (Continued)

Interest rate risk. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Margins between finance income earned and interest expenses paid may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

As at 31 December 2018 or 2017 the Company was not exposed to fair value interest rate risk since all its financial assets and liabilities are accounted for at amortised cost. The exposure to the cash flow interest risk as at 31 December 2018 and 2017 arises from one borrowing at variable interest rate, all other financial assets and liabilities bear fixed interest or are interest free. The table below presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts as at 31 December 2018, categorised by the earlier of contractual interest re-pricing or maturity dates.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
Financial Assets					
Cash and cash equivalents	18,639	-	-	-	18,639
Due from banks	-	-	-	-	-
Net investment in finance lease	18,544	12,728	56,392	116,043	203,707
Advances towards leasing contracts	33,182	1,652	1,234	-	36,068
Other financial assets	5,123	131	868	1,204	7,326
Total financial assets	**75,488**	**14,511**	**58,494**	**117,247**	**265,740**
Financial Liabilities					
Loans from banks and financial institutions	1,353	9,965	96,541	96,510	204,369
Debt Securities in issue	64	-	8,030	-	8,094
Advances received from customers	16,159	1,290	277	-	17,726
Subordinated loan	34	-	-	29,213	29,247
Derivative Financial Instruments	48	-	-	-	48
Other financial liabilities	2,773	2,571	139	-	5,483
Total financial liabilities	**20,431**	**13,826**	**104,987**	**125,723**	**264,967**
Net interest rate sensitivity gap	**55,057**	**685**	**(46,493)**	**(8,476)**	**773**

27 Financial Risk Management (Continued)

The table below presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts as at 31 December 2017, categorised by the earlier of contractual interest re-pricing or maturity dates.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
Financial Assets					
Cash and cash equivalents	7,865	-	-	-	7,865
Due from banks	-	-	4,432	-	4,432
Net investment in finance lease	13,485	9,008	38,968	82,316	143,777
Advances towards leasing contracts	5,152	9,015	11,591	-	25,758
Other financial assets	607	809	1,018	1,613	4,047
Total financial assets	**27,109**	**18,832**	**56,009**	**83,929**	**185,879**
Financial Liabilities					
Loans from banks and financial institutions	1,217	1,714	48,767	84,084	135,782
Debt Securities in issue	51	-	-	7,747	7,798
Advances received from customers	2,581	4,518	5,808	-	12,907
Subordinated loan	117	-	14,867	701	15,685
Derivative Financial Instruments	-	-	-	-	-
Other financial liabilities	5,452	2,694	1,111	-	9,257
Total financial liabilities	**9,418**	**8,926**	**70,553**	**92,532**	**181,429**
Net interest rate sensitivity gap	**17,691**	**9,906**	**(14,544)**	**(8,603)**	**4,450**

Liquidity risk. Liquidity risk refers to the availability of sufficient funds to meet financial commitments associated with financial instruments as they actually fall due. The Management Board (Internal body, which is composed of the Company CEO, CRO, CFO, CCO) controls these types of risks by means of maturity analysis, determining the Company's strategy for the next financial period. In order to manage liquidity risk, the Company performs monitoring of future expected cash flows on clients' and the Company's operations.

The maturity analysis of financial liabilities based on remaining undiscounted contractual obligations at 31 December 2018 is as follows:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Total
Financial Liabilities					
Loans from banks	3,206	12,394	105,664	101,703	222,967
Debt securities in issue	259	-	8,323	-	8,582
Advances received from customers	16,159	1,290	277	-	17,726
Subordinated loan	623	340	1,990	37,642	40,595
Derivative Financial Instruments	48	-	-	-	48
Other financial liabilities	2,773	2,571	139	-	5,483
Total potential future payments for financial obligations	**23,068**	**16,595**	**116,393**	**139,345**	**295,401**

27 Financial Risk Management (Continued)

The maturity analysis of financial liabilities based on remaining undiscounted contractual obligations at 31 December 2017 is as follows:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Total
Financial Liabilities					
Loans from banks	2,075	2,819	62,535	82,852	150,281
Debt securities in issue	249	-	423	8,200	8,872
Advances received from customers	2,635	4,647	6,228	-	13,510
Subordinated loan	281	281	16,164	707	17,433
Derivative Financial Instruments	-	-	-	-	-
Other financial liabilities	5,725	2,828	1,166	-	9,719
Total potential future payments for financial obligations	**10,965**	**10,575**	**86,516**	**91,759**	**199,815**

The Company does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Company monitors liquidity gap analysis based on the expected maturities of discounted financial assets and liabilities. The expected liquidity gap as at 31 December 2018 is presented in the following table:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
Financial Assets					
Cash and cash equivalents	18,639	-	-	-	18,639
Due from banks	-	-	-	-	-
Net investment in finance lease	18,544	12,728	56,392	116,043	203,707
Advances towards leasing contracts	33,182	1,652	1,234	-	36,068
Other financial assets	5,123	131	868	1,204	7,326
Total financial assets	**75,488**	**14,511**	**58,494**	**117,247**	**265,740**
Financial Liabilities					
Loans from banks and financial institutions	1,353	9,965	96,541	96,510	204,369
Debt Securities in issue	64	-	8,030	-	8,094
Advances received from customers	16,159	1,290	277	-	17,726
Subordinated loan	34	-	-	29,213	29,247
Derivative Financial Instruments	48	-	-	-	48
Other financial liabilities	2,773	2,571	139	-	5,483
Total financial liabilities	**20,431**	**13,826**	**104,987**	**125,723**	**264,967**
Liquidity gap	55,057	685	(46,493)	(8,476)	773
Cumulative liquidity gap	**55,057**	**55,742**	**9,249**	**773**	

27 Financial Risk Management (Continued)

The expected liquidity gap as at 31 December 2017 is presented in the following table:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
Financial Assets					
Cash and cash equivalents	7,865	-	-	-	7,865
Due from banks	-	-	4,432	-	4,432
Net investment in finance lease	13,485	9,007	38,968	82,317	143,777
Advances towards leasing contracts	5,152	9,015	11,591	-	25,758
Other financial assets	607	809	1,012	1,619	4,047
Total financial assets	**27,109**	**18,831**	**56,003**	**83,936**	**185,879**
Financial Liabilities					
Loans from banks and financial institutions	1,217	1,714	48,767	84,084	135,782
Debt Securities in issue	51	-	-	7,747	7,798
Advances received from customers	2,581	4,518	5,808	-	12,907
Subordinated loan	117	-	14,867	701	15,685
Derivative Financial Instruments	-	-	-	-	-
Other financial liabilities	5,452	2,694	1,111	-	9,257
Total financial liabilities	**9,418**	**8,926**	**70,553**	**92,532**	**181,429**
Liquidity gap	17,691	9,905	(14,550)	(8,596)	4,450
Cumulative liquidity gap	**17,691**	**27,596**	**13,046**	**4,450**	

Geographical concentration. The geographic concentration of assets and liabilities are generally stable, as the Company does not operate outside Georgia. The Company has no assets outside Georgia.

Exposure to related party funding. The Company is exposed to the risk of significant concentration of funding from the related parties. The Company is a member of a large banking Group. The risk of going concern is mitigated by the commitment of the owners of the Company to maintain stable funding support to the Company.

28 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company considers its capital to be equity and subordinated loans from its Parent. The amount of capital that the Company managed as of 31 December 2018 was GEL 53,963 thousand (2017: 35,085 thousand).

29 Derivative Financial Instruments

In the normal course of business, the Company enters into derivative financial instruments, to manage currency and liquidity risks.

Foreign Exchange Forwards and gross settled currency swaps. Foreign exchange derivative financial instruments the Company entered are generally traded in an over-the-counter market with professional counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts and gross settled currency swaps the Company entered. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term by their nature.

29 Derivative Financial Instruments (Continued)

	2018		2017	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of				
- USD receivable on settlement (+)	3,642	-	-	-
- GEL receivable on settlement (+)	4,599	-	-	-
- EUR payable on settlement (-)	-	(8,289)	-	-
Fair value of foreign exchange forwards and swaps	**8,241**	**(8,289)**	-	-
Net fair value of foreign exchange forwards and swaps		**(48)**	-	

30 Fair Value of Financial Instruments

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 estimated fair value of financial instruments have been determined by the Company, using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Management has used all available market information on interest rates in estimating the fair value of financial instruments.

All Company's financial assets and liabilities are carried at amortised cost. Cash and cash equivalents are carried at amortised cost, which equals current fair value. Net investment in finance lease, advances towards leasing contracts and other financial assets are stated net of provisions for impairment. The estimated fair value of these financial assets represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of floating rate instruments is normally their carrying amount. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. The discount rates used were consistent with the Company's credit risk and also depend on currency and maturity of the instrument.

30 Fair Value of Financial Instruments (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as at 31 December 2018 are as follows:

	31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Carrying value**
Financial assets				
Cash and cash equivalents	18,639	-	-	18,639
Due from banks	-	-	-	-
Advances towards leasing contracts	-	-	35,540	36,068
Net investments in finance lease	-	-	206,665	203,707
Derivative Financial Instruments	-	8,241	-	8,241
Other financial assets	-	-	3,136	7,326
Total assets	**18,639**	**8,241**	**245,341**	**273,981**
Financial liabilities				
Loans from banks and financial institutions	-	203,016	-	204,369
Debt securities in issue	-	8,030	-	8,094
Advances received from customers (Security Deposit)	-	9,522	-	9,522
Subordinated loan	-	29,213	-	29,247
Derivative Financial Instruments	-	8,289	-	8,289
Other liabilities	-	5,483	-	5,483
Total liabilities	**-**	**263,553**	**-**	**265,004**

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as at 31 December 2017 are as follows:

	31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Carrying value**
Financial assets				
Cash and cash equivalents	7,865	-	-	7,865
Due from banks	4,432	-	-	4,432
Advances towards leasing contracts	-	-	22,343	23,017
Net investments in finance lease	-	-	145,792	143,777
Derivative Financial Instruments	-	-	-	-
Other financial assets	-	-	3,136	4,047
Total assets	**12,297**	**-**	**171,271**	**183,138**
Financial liabilities				
Loans from banks and financial institutions	-	134,845	-	135,781
Debt securities in issue	-	7,777	-	7,798
Advances received from customers (Security Deposit)	-	10,294	-	10,294
Subordinated loan	-	15,577	-	15,685
Derivative Financial Instruments	-	-	-	-
Other liabilities	-	9,257	-	9,257
Total liabilities	**-**	**177,750**	**-**	**178,815**

31 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Company may be received. Based on its own estimates and both internal and external professional advice Management is of the opinion that no losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation. Georgian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. Management believes that its interpretation of the relevant legislation is appropriate and the Company's tax positions will be sustained. Accordingly, at 31 December 2018 and 2017 no provision for potential tax liabilities has been recorded.

The TP legislations appear to be technically elaborate and aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) and it provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with some related parties and unrelated parties), if the transaction price is not arm's length.

Management believes that it has implemented internal controls to be in compliance with the TP legislation. Given that the practice of implementation of the Georgian transfer pricing rules has not yet developed, the impact of any challenge of the Company's transfer prices cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Company.

Operating lease commitments. Where the Company is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2018
Not later than 1 year	463
Later than 1 year and not later than 5 years	778
Later than 5 years	-
Total operating lease commitments at 31 December	**1,241**

Compliance with covenants. The Company is subject to certain covenants related primarily to its borrowings from banks and international financial institutions. Non-compliance with such covenants may result in negative consequences for the Company, including growth in the cost of borrowings and the timing of repayment of existing facilities. Management believe that as at 31 December 2018 and 2017 and during the respective years the Company has complied with the covenants that were in force.

32 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can 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.

Included in the following information, "Other related entities" refers to other companies under common control and significant shareholders of the Parent company. Key management personnel consist of members of the Company's Management Board.

32 Related Party Transactions (Continued)

At 31 December the outstanding balances with related parties were as follows:

	2018			2017		
	Parent company	Entities under common control	Other related entities	Parent company	Entities under common control	Other related entities
Cash and cash equivalents	17,371	-	-	6,920	-	-
Due from banks	-	-	-	4,432	-	-
Net investment in finance leases (effective interest rate: 15.0%-40.0%)	-	-	1,300	-	-	721
Loans from banks and financial institutions (contractual interest rate: 5%-13.5%)	45,359	-	-	21,542	5,198	-
Subordinated loans	2,445	-	-	13,072	-	-
Other Liabilities	105	-	-	-	-	-

The income and expense items with related parties for the year ended 31 December 2018 and 2017 were as follows:

	2018			2017		
	Parent company	Entities under common control	Other related entities	Parent company	Entities under common control	Other related entities
Income from finance lease	250	-	-	166	-	-
Income from operating leasing	745	131	-	-	-	-
Finance income	-	-	189	-	-	206
Other income	11	-	-		-	-
Interest expense	4,465	195	-	2,601	72	-
Bank and other service charge	59	43	-	138	-	-
Gain from derivative financial instruments	56	-	-	-	-	-
Other expense	-	2,092	-	-	832	-

Key management compensation is presented below:

	2018		2017	
	Expenses	Accrued Liability	Expenses	Accrued Liability
Short-term benefits	1,309	599	1,133	306

During the year ended 31 December 2018 and 2017 the remuneration of members of the key management, being the members of the Management Board, comprised salaries, bonuses and compensation of insurance and business trip expenses.