JOINT STOCK COMPANY TBC LEASING

Management Report

31 December 2019

TBC Leasing

JSC "TBC Leasing" was founded in 2003 by "TBC Bank" and from the very origination, company thrives towards becoming leading company of leasing market and sets high standards of customer service. TBC Leasing serves corporate and retail clients through different sales channels and constantly introduces innovative and new products to Georgian leasing market.

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Financial Indicators

Net Income (In thousands of Georgian Lari)

Change	34.0%
2019	8,166
2018	6,094

Return on Average Equity

Change	-2.02%
2019	25.61%
2018	27.63%

Return on Average Assets

Change	0.10%
2019	2.58%
2018	2.48%

Cost to Income Ratio

Change	-1.41%
2019	43.37%
2018	44.78%

Cost of Risk

Change	-0.24%
2019	2.13%
2018	2.37%

Total Assets (In thousands of Georgian Lari)

Change	18.2%
2019	342,316
2018	289,684

Non-Performing Leases

Change	0.03%
2019	3.02%
2018	2.99%

- **Return on Average Equity** – Net income divided by Average Shareholder's Equity.
- **Return on Average Assets-** is calculated by dividing a company's net income by average amount of assets
- **Cost to Income Ratio-** is the measure of the administrative expenses in relation to its net lease income
- **Cost of Risk-** Total Provision (provision on lease receivables plus non-operational costs) divided by the average total portfolio (monthly average total portfolio)
- **Non-Performing Lease -** Leases with overdue payments over 90 days plus unhealthy restructured leases overdue for less than 90 days divided by total portfolio.

Operating Indicators

Number of Employees

2019	123
2018	110

Number of Branches

2019	3
2018	5

Number of active Clients

2019	4,003
2018	3,639

Number of active Contracts

2019	6,009
2018	5,349

Company Overview

TBC Leasing was founded in 2003.The Company's key business objective is provision of asset financing for Small and Medium Enterprises in Georgia as well as retail leasing - from 2017 the Company is actively engaged in retail market and as of Dec. 2019 leases to retail clients comprised 12.4% of total leasing portfolio. The Company offers following types of lease products to its customers:

- Financial Lease –the lessee usually purchases the leased asset by the end of term;
- Operational Lease – the lessee returns the leased asset to the Company at the end of lease term;

Financial lease is the most popular product with the largest (approximately 98%) share in Company's portfolio. It is closely followed by operational lease. In 2019 company actively started disbursement of IPO Leases which finances commercial and residential properties to corporate and retail clients. During the 2019 financial year, company issued more than GEL 8 million leases under new IPO product.

In general, each lease is disbursed based on documents (including application) duly presented by potential customer. Prior to issuing a product, the Company requests objective appraisal of the asset to be leased.

Because leased assets serve as collateral for the products, the Company's credit policy requires them to be insured either by customers or the Company itself. Only top rates insurance companies are accepted as eligible providers.

Once the lease is effected, the Company conducts regular annual monitoring thereof, either through financial documentation or asset monitoring/revaluation.

The Company's broadly diversified liability structure is supported by a range of high profile lenders including Symbiotics, ResponsAbility, Triple Jump, MicroVest, Blue Orchard, Green for Growth Fund, BSTDB, IFAD and EFA as well as Georgian local banks. In 2019 the Company has completed negotiations with major financial institutions such as the EBRD, FMO and Proparco. Within the framework of these relationships TBC Leasing can use credit limit in both currency USD and EUR. In the beginning of 2020 company has already completed the deals with FMO and Proparco and received funds in total amount of 11.9 million Euro.

It should be mentioned that, in March 2020 TBC Leasing has successfully completed a public placement of GEL 70 mln bonds, from which initial subscription was up to GEL58.4 mln. The issued bond has a three years maturity and is denominated in local currency. In order to get approval from National Bank of Georgia on issuing public bonds, TBC Leasing had to receive rating from high rated international rating agencies. So company started the process of auditing in 2019 and in January 2020 Fitch rates TBC Leasing at BB- Outlook stable. In March 2020 Fitch assigned a senior secured debt rating of 'BB-' to TBCL's GEL70 mln bond issuance.

With introduction of new financial institutions and optimizing capital structure, parent company of TBC Leasing TBC Bank injected GEL 6 million in equity in December 2019 and, at the same time, approved an additional injection in the amount of GEL 2.5 million, to be enforced in 2020.

Currently company operates with head office and 3 retail branches out of which two is located outside Tbilisi. Retail branches serve individual clients with monthly income in 700-2,000 GEL range and offer financial lease for used and imported cars. Besides branches, company is presented with sale's points at 4 official car dealer outlets. Corporate clients are served at head office of the company.

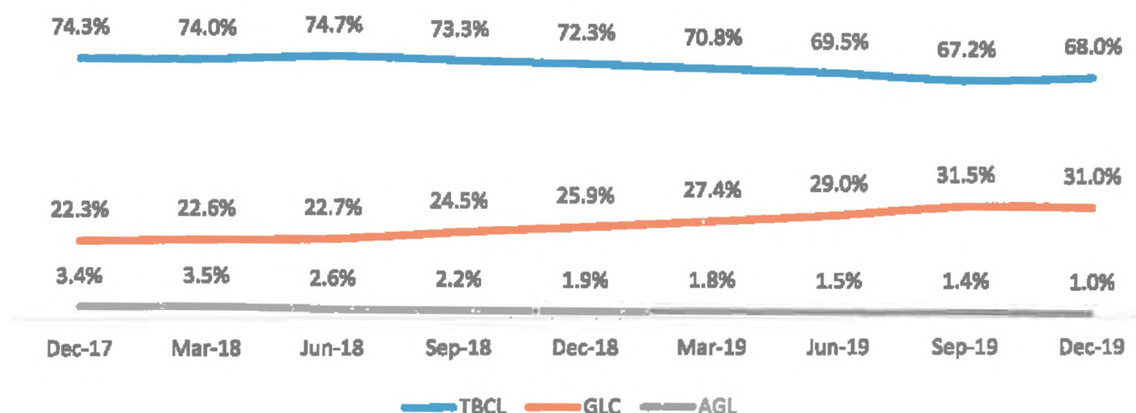
Future Development Plans and Recently Performed R&D

Company is in its post development stage of its core operational system and is continually working on improving and adding different tools, for simplifying daily working environment for its employees and at the same time delivering high level service to its customers. Currently new monitoring system for leased assets is under development and should be launched by the end of 2020. Also company is working on mobile reporting application, through which management of the company will be able to see up to date information on a daily basis in their mobile device.

Leasing Market Overview

The major players in the market are TBC Leasing, Georgian Leasing Company ("GLC") and Alliance Group Leasing ("AGL"). Other institutions active in the leasing market in Georgia are Liberty Bank, MFO Swiss Capital, MOGO LLC and various other microfinance and non-banking lending institutions. The three main companies (the Company, GLC and AGL) dominate the leasing industry in Georgia, however they are focused on large/SME institutions while retail leasing market is largely untapped. The majority (around 97%) of leases are financial leases.

In terms of market share TBC Leasing held 68% of the market in Q4 2019 and has maintained a leading position for a number of years. Market shares data for main three players is given in the graph below:



In 2011, the Georgian parliament approved a new legislation in accordance with the principles of the International Institute for the Unification of Private Law (UNIDROIT), an independent intergovernmental organization based in Rome focused on aligning private and commercial law across states. As the result, a number of amendments were made to Georgia's Tax and Civil Codes. The new legislation created stronger incentives for companies to lease by allowing them some tax flexibility as well as easier tax procedures for lessees, and reduced effective tax rates for lessors and lessees due to changes in lease accounting treatments.

From January 1, 2017, the new amendments to the Tax Code (Named "Estonian Model") enable the leasing companies to be relieved from profit tax exposure on their proceeds, unless profit is distributed to the partners (shareholders) in the form of dividends. Also VAT payment regulations have changed, received advances classifying as object of taxation (with the exception of long-term regular service payments).

Existing tax laws and government tax policies may change in the future, it also depends on changes in government. Such changes may include introducing new taxes or increasing taxes for Company or Company customers, which could have a material adverse effect on the Company's business.

Overview of Financial Results of 2019

TBC Leasing's financial statements are prepared in accordance with IFRS (International Financial Reporting Standards).

Main Financial Indicators:

	2019	2018	Change
Return on Average Equity	25.61%	27.63%	-2.02, pp
Return of Average Assets	2.58%	2.48%	0.1, pp
Cost to Income	43.37%	44.78%	-1.41, pp
Cost of Risk	2.13%	2.37%	-0.24, pp
NPL	3.02%	2.99%	0.03, pp

Increasing Profitability

Company's net income is rising year by year and 2019 was not the exception. Net income for the last year amounted to GEL 8,166 thousand, which is 34% more than in 2018. Increased profitability is mainly driven by significant growth in lease portfolio and effective asset and liability management.

One of the most important financial ratio for the company is ROAE (Return on average equity), which is 25.61% for the year 2019. In 2019 ROE and return on average equity from continuing operations has slightly decreased compared to 2018. Which is associated with the capital injections in December 2019.

	2019	2018	Change
Net Income	8,165,526	6,094,041	34%
Net Income from Continuing Operations	8,074,695	6,293,169	28%
Return on Average Equity	25.61%	27.63%	-2.02, pp
Return on Average Equity (Continuing Operations)	25.33%	28.53%	-3.2, pp

Net Lease Income

Net lease income for the period amounted to GEL 31,615 thousand 21% more than previous year. As it was mentioned earlier, there was a growth in Lease portfolio, which was one of the drivers for increased profitability. Interest expense has increased more than income from lease, which is due to the increase in cost of funds. Compared to the previous year the net lease income margin has decreased, because of increase in interest expense which is linked to the increase in refinancing rates on borrowed funds.

	2019	2018	Change
Lease Income	52,295,329	41,391,514	26%
Interest Expense	20,680,162	15,356,399	35%
Net Lease Income	31,615,167	26,035,115	21%
Net Lease Income Margin	60.46%	62.90%	-2.44, pp

Provision for Impairment

Cost of risk of the company is comprised of two main elements: provision for impairment of net investment in finance lease and Non-operation costs, which in turn represents sum of provision of impairment of other financial assets and other non-operation costs.

Total provision expense has increased by 13%, because of changed in provision for impairment of other financial assets, which is due to increase in balance of receivables from terminated leases. Cost of risk during the period has decreased by 0.24% and amounted to 2.13 % by the end of 2019 financial year.

	2019	2018	Change
Provision on lease receivables	563,351	623,551	-10%
Provision for impairment of other financial assets	4,957,102	4,262,283	16%
Total Provision	5,520,453	4,885,834	13%
Gross investment in finance lease	259,761,726	206,163,934	26%
COR	2.13%	2.37%	-0.24, pp

Administrative and Other Operating Expenses

Administrative and other operating expenses have increased and amounted to GEL 10,371 thousand, which is 14% more than previous year. Main determinant of an increase is staff expenses, which rose in line with lease portfolio. Despite of increased expenses cost to income ratio have insignificantly decreased and by the end of 2019 equals 43.37%.

	2019	2018	Change
Staff Expenses	5,067,167	3,937,380	29%
Depreciation and Amortization	1,784,191	996,166	79%
Other Administrative and Operating Expenses	3,519,461	4,175,964	-16%
Total Administrative and Operating Expenses	10,370,819	9,109,510	14%
Cost to Income	43.37%	44.78%	-1.41, pp

Risk Factors and Uncertainties

Macro economy, policies and market conditions

Alike to the other countries in the world, in Georgia too companies' business, financial condition and results of operations are largely affected by the macroeconomic and market conditions. Company generates most of its revenue from leasing services, growth of which is dependent on the demand for leasing services on Georgian market. A downturn in the Georgian economy may adversely affect the overall demand for leasing services, which could, in turn, harm Company's business and growth prospects.

Company's business, financial condition and results of operations are also subject to evolving macroeconomic conditions and local policies in Georgia, including inflation or deflation, fluctuations in currency, accessibility to financing and levels of interest rates. Changes in macroeconomic conditions and local policies may materially and adversely affect Company and its businesses, financial condition and results of operations. If Company fails to promptly adjust its business structure and proactively mitigate risks in response to such policy changes, its business operations and prospects may be adversely affected.

Funding

Company's business is balance sheet-driven, which requires a substantial amount of funding to support the growth of the leased asset portfolio, to fund its operations and to repay the debts. Company has to make significant principal and interest payments on its outstanding indebtedness. Although the Company generally generates considerable funds from leasing operations, meeting its cash requirements for business needs in the long term requires substantial liquidity and stable access to multiple sources of funding. Company funds its operations and expansion primarily through bank and other partner financial institution borrowings, bond issuances and cash injections in equity capital, in addition to the cash generated from its business operations. If Company fails to maintain its existing and future funding arrangements on commercially acceptable terms, it may not be able to continue obtaining sufficient funding from the current sources. Company's current sources of funding are adequate to support projected growth, but as a result of external and internal factors may not be sufficient to meet its liquidity needs in the future, and it may not be able to timely explore new sources to raise financing for the business.

Market Interest Rate

Lease income that the Company receives from leases and the interest the Company pays on its indebtedness are affected by market interest rates. High volatility in market interest rates will directly affect its financing costs, lease income, net interest margin, and, the Company's profit margin and financial condition. Although the Company thoroughly tries to mitigate risk related to interest rate fluctuation by aligning floating and fixed interest rates on its funding and lease financing side, fluctuations in market interest rates are subject to various factors beyond Company's control, such as the regulatory framework of the Georgian banking and financial sectors and the economic and political environment in Georgia.

Competition

The leasing industry is developing rapidly and becoming increasingly competitive. Although the Company currently holds 68% of market share and Georgian leasing industry still has great potential for development, there can be no assurance that the Company will be able to maintain its current position as a result of the increasingly intense competition. Some of Company's competitors may have greater financial and management resources than the Company does. They may have more operational and financial resources as well as customer networks and relationships, lower financing costs, and higher risk tolerance or different methods of risk assessment, such that they can consider or afford a wider variety of investments, establish more relationships, and bid more aggressively on assets available for sale. In addition, some of Company's competitors may offer better terms to prospective lessees than the Company does.

Company also competes with major commercial banks and other financial services providers in Georgia and despite the fact that the Company is offering to its clients benefit, which is specific only for leasing due to its legal structure and specific nature, these institutions may provide financing at more favourable terms to the Company's current and prospective customers. Moreover, more advantageous financing terms can be offered by dealers/distributors of certain types of leasable assets.

Risk Management and internal control systems

As the Company business developed to a variety of industries its business model and risk exposures became more complex. Company continually improves its risk management system, including introduction of separate strategic unit organized under CRO in charge of control for credit, asset and legal risks of Company. In addition to that the Company annually performs financial and tax audit performed by third party independent auditors and also internal audit performed by the Parent in order to identify control deficiencies. Such audit results are reported to the shareholders. As Company's business and operations evolve, its risk management measures

may not be able to capture and mitigate all material risks in the business. Therefore, when Company enters a new industry, approaches new customers or develops new products or services, is may not be able to adequately identify and estimate all future risk exposures, since some of its risk management and control methods are based upon historical business experience, market behavior and past events, and such risk exposures could be significantly greater than Company estimations based on historical data.

Company's other risk management methods depend on the evaluation of information regarding markets, customers or other relevant matters, which may be inaccurate, incomplete, obsolete or improperly evaluated.

Furthermore, as Company business is developing, its risk management and internal control policies may not be able to effectively reduce and mitigate all types of risks, including unexpected risks and those of which the Company is unaware of, which may contribute to an increase in the non-performing asset ratio. In addition, in response to operational, legal or financial risks, Company needs to establish various sets of policies and procedures, in order to accurately record and verify a large number of transactions and events. Such policies and procedures may not be fully effective. Any failure to properly implement Company's risk management procedures or any failure to identify applicable risks may materially and adversely affect Company's financial condition and results of operations.

Losses relating to credit risk may arise if the risk management policies, procedures and assessment methods implemented by the Company to mitigate credit risk and to protect against credit losses prove less effective than expected. The Company employs qualitative tools and metrics for managing risk that are based on observed historical market behavior. These tools and metrics may fail to predict future risk exposures, especially in periods of increased volatility or falling valuations or in periods in which there is a rapid expansion of the Company's lease portfolio. In addition, even though the Company requires regular financial disclosure by its corporate customers, customer financial statements may not always present a complete and accurate picture of each customer's financial condition. Furthermore, some of the Company's corporate customers may not have extensive or externally-verified credit histories, and their accounts may not be audited by a reputable external auditor. Therefore, notwithstanding the Company's credit risk evaluation procedures, the Company may be unable to evaluate correctly the current financial condition of each prospective corporate lease and to determine accurately the ability of such corporate lease to repay its leases when due.

Currency Fluctuations

A substantial portion of the total assets of the Company, especially its lease portfolio is denominated in foreign currencies, primarily US Dollars, while the majority of customers who have their leases denominated in foreign currencies earn their income in Georgian Lari. Those customers are usually not protected against the fluctuations of the exchange rates of the GEL against the currency of the lease. Consequently, any depreciation of the GEL against the currency of the lease may result in difficulties related to the repayment of the leases, which, in turn, may lead to a decrease in the quality of the Company's lease portfolio and an increase in impairment provisions for leases extended to the Company's customers, which may have a material adverse effect on the Company.

Although the Company seeks to minimize its open foreign currency positions through limits on the Company's foreign currency positions and gradually increases portion of lease portfolio denominated in local currency, there can be no assurance that these measures will protect against foreign exchange risks. If the Lari exchange rate against the US dollar fluctuates, this could lead to the Company suffering losses, which could, in turn, have a material adverse effect on the Company.

Political Instability in Georgia

Since the restoration of its independence in 1991, Georgia has undergone a substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. Political climate in the country was highly volatile in the 1990s and in the early part of the 2000s.

Georgian Dream Coalition won a majority of seats in the Georgian parliamentary elections held October in 2012. Then-President Mikheil Saakashvili's governing party admitted defeat thus leading to a transfer of power in Georgia. Shortly Mr. Ivanishvili was elected as the Prime Minister by the Georgian Parliament, however in November 2013 he stepped down and is no longer an elected official. In 2018 Mr. Ivanishvili returned to political activities as the chairman of Georgian Dream Coalition and in 2019 staying on that position. On September 8,2019 the post of Prime Minister was taken by Mr. George Gakharia.

Georgia's economic policy is based on the principles of a free market economy, which includes the protection of property rights, free competition and freedom of the private sector with an effective and transparent government. The Georgian Dream Coalition is generally seen to be business and investor friendly and to date has remained committed, in principle, to major economic and fiscal policies designed to liberalise and improve the Georgian economy. The Prime Minister has promised to introduce additional reforms, including reforms to the tax system, to further incentives economic growth and job creation.

Any political instability in Georgia could have negative effects on the Georgian economy, which could, in turn, have a material adverse effect on the Company's business, financial condition, results of operations and prospects, as well as on the trading price of the Bonds.

Operating Environment and Macroeconomic Overview

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. Structural reforms and diversified sources of inflows once again paid off in 2019. Alongside its high growth potential, resilience has become another hallmark of the Georgian economy in recent years, as reflected in continuous upgrades to the country's sovereign credit ratings. On October 11, 2019 Standard and Poor's upgraded Georgia's sovereign credit rating from 'BB-' to 'BB' with stable outlook.

While COVID-19 is certainly a challenge for the global as well as Georgia's tourism dependent economy, assuming the shock is predominantly temporary, rather than permanent, the economy and most of the sectors should be back to the normal growth trajectory in a reasonable time-frame. Meanwhile, it will be a challenging period, however, the Company's advanced risk management practices including stress testing and risk mitigation should pay-off.

Initial projection for 2020 growth was around 5.0% The economy was expected to expand at this rate without large scale infrastructure projects entering more active phase and assuming that the flight ban with Russia is not lifted. Due to the COVID-19 crises, we expect the economy to contract in 2020, though the growth should turn positive in 2021. While the shock is severe and the uncertainties are high, the support from the international financial institutions is an important mitigation. Also, there were no signs of overheating in the economy or housing market before the distress. Therefore, the impact of the shock on the economy and financial sector should be rather manageable.

Overall, the dynamics of the external balance remained healthy. Following lower growth in tourism inflows, the balance of trade in services declined slightly from 12.7% of GDP in 2018 to 12.2% of GDP in 2019 which was counteracted by the lower deficit in trade in goods (down by 2.3% of GDP). As a result, the CA balance to GDP ratio improved to its historic low of 5.1% in 2019, compared to 6.8% in 2018. The CA deficit continued to be fully financed with FDI inflows, coming in at 5.6% on a net basis, up by 0.3 pp compared to 2018. Although

somewhat below the average amount in the past couple of years, FDI inflows at current levels are still quite high compared to peer countries in the neighbourhood as well as in Central and Eastern Europe.

The depreciation in the GEL exchange rate since June 2019 has been the major factor behind the rise in inflation to 7.0% as of the end of 2019. In response to higher inflation pressures, the NBG tightened the monetary policy rate from 6.5% by the beginning of September to 9.0% as of the end of 2019. The tighter monetary policy stance in GEL, coupled with a stronger external sector, contributed to the appreciation in the GEL. At the end of 2019, US$/GEL stood at 2.87, strengthening from the high of 2.98 at the end of September.

Despite tighter monetary policy in GEL, lending growth remained solid, mostly on the back of accelerated FX credit by the end of 2019, supported by the lower reserve requirements and ample bank liquidity in FX. At the end of 2019, the bank loan portfolio went up by 16.1% YoY, excluding the exchange rate effect, mostly on the back of business lending (+23.3% YoY excluding FX effect), supporting economic growth. At the same time, retail growth was relatively slow (+6.0% YoY excluding FX effect), owing to tighter prudential regulations. Despite some acceleration of FX lending, the de-dollarization of the financial sector remains a priority for the central bank; however, in the future, relatively more attention is expected to be devoted to liabilities.

Fiscal spending significantly supported growth in 2019, with the budget deficit coming in at an estimated 2.4% of GDP in 2019. The actual impact of the fiscal sector on growth was even higher: taking into consideration the advance payments made at the end of 2018 and high multiplier of capital spending.

Public debt levels remained stable, with the composition of debt switching gradually towards domestic financing. At the end of 2019, estimated public debt to GDP stood at 41.1% as opposed to 40.4% a year ago, mostly on the back of higher domestic debt (up from 8.8% of GDP in 2018 to 9.7% of GDP), while the level of external debt went down slightly by 0.1% of GDP to 31.5%, despite the GEL depreciation throughout the year.

Above 5.0% economic growth for the full year 2019 once more underlines the resilience and high growth potential of the Georgian economy. This growth is particularly encouraging given the challenges that the economy faced in 2019, the most important being Russia's flight ban. Per IMF projections, as of April 2020, Georgian economy is expected to contract by 4.0% in 2020, while in 2021 the growth is expected to recover to 3.0%.

Risk Management

TBC Leasing contracts include the lessee prepayment of 20% of the equipment price at the inception of the lease. The Company holds title to the leased assets during the contract term and passes it to the lessees only at the contracts' end. TBC Bank's Credit Committee makes final decision to issue leases with value of more than $1,500,000. All lease recommendations (approval of lessee's limits, amendments to lease agreements, etc.) are reviewed and approved by the Credit Committee of the Company.

The Company actively manages its liquidity risk, ensuring availability of sufficient funds to meet financial commitments as they come due. The Management Board (which is composed of the CEO, CRO and CFO) controls liquidity risks by means of maturity analysis and liquidity gap analysis. The Company actively monitors future expected cash flows on clients' and the Company's operations.

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 minimize 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 recognized 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 1,500,000. 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.

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.

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.

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 because of such changes but may reduce or create losses in the event that unexpected movements arise.

As at 31 December 2019 or 2018, the Company was not exposed to fair value interest rate risk since all its financial assets and liabilities are accounted for at amortized cost. The exposure to the cash flow interest risk as at 31 December 2019 and 2018 arises from one borrowing at variable interest rate. All other financial assets and liabilities bear fixed interest or are interest free.

Liquidity risk

Liquidity risk is the risk that the Company either may not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or may only be able to access those resources at a high cost. Both funding and market liquidity risks can emerge from a number of factors that are beyond the Company's control. 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.

Spread of coronavirus (COVID-19)

COVID-19 outbreak, declared as a pandemic by the World Health Organization, started in China and spread rapidly around the world in early 2020. COVID-19 pandemic has already caused major economic disruptions, halted international travel and resulted in country lockdowns. COVID-19 pandemic results in a decreased economic growth in Georgia, increased unemployment, depreciation of the GEL, decreased commodity and real estate prices and impaired creditworthiness of the private sector, and increases financial and non-financial risks of the Company.

As tourism contribution in Georgian economy was significant, the impact should be sizable. The growth is also expected to be impacted negatively through lower exports, remittances and FDI inflows, as well as the lockdown to prevent the widespread of the virus. At the same time, imports should also adjust. Nevertheless, there will be increase in current account balance.

However, Georgia is acting very actively to attract support from the international financial organizations. According to the government's announcement as of 15 March, around US$ 1.7 billion, or 10% of 2019 GDP would be mobilized to support predominantly the government's financing needs and partially the central bank's international reserves. In addition, around US$ 1.5 billion should be used to support the private sector. Those injections are expected to materially counteract the negative impact of the COVID-19 crisis. Per IMF projections, as of 14th April1, Georgian economy is expected to contract by 4.0% in 2020, while in 2021 the

growth is expected to recover to 3.0%. Together with the international support, it is also important to take into account that there we no signs of overheating of the Georgian economy during the pre-distress period, including the housing market. Therefore, assuming the COVID-19 is predominantly temporary, rather than permanent shock, most of the industries should recover relatively quickly with the hospitality sector likely lagging behind for some additional period.

TBC Leasing has implemented a number of actions to protect its customers and staff members and to minimize disruption to the Company's operations during the COVID-19 outbreak.

We introduced three months grace period on payments of principal and interest for all retail, MSME and corporate customers. We have close communications with our business customers discussing their strategies and sharing our outlook on the economy and its key sectors.

In addition, The Company undertakes stress-testing and sensitivity analysis. We have analysed multiple scenarios to ensure that the Company has sufficient liquidity. Results of the stress-testing and what-if scenarios, are actively monitored by the Management and Risk Committee to ensure prudent management and timely actions when needed.

As a result of COVID-19 pandemic, the Company activated secure remote working policies, which ensure that home working environments are protected against relevant cyber-threats and security team provides effective oversight of teleworking channels.

Going concern statement

The Management has fully reviewed the available information pertaining to the principal risks, strategy, financial health, liquidity and solvency of the Company, and determined that the Company's business remains a going concern. The Managements have not identified any material uncertainties that could threaten the going concern assumption and have a reasonable expectation that the Company has adequate resources to remain operational and solvent for the foreseeable future (which is, for this purpose, a period of 12 months from the date of approval of these financial statements). Accordingly, the Company's financial statements are prepared in line with the going concern basis of accounting.

Corporate Governance

TBC Leasing's corporate bodies are the General Meeting of Shareholders (**"General Meeting"**), the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with Georgian law and the Company's Charter. The GMS elects the members of the Company Supervisory Board, which is responsible for supervising the Company Management Board. The Company Supervisory Board appoints CEO of the Company and in its turn the CEO appoints the other members of the Company Management Board, which is the executive body of the Company directly responsible for day-to-day operations.

Supervisory Board Member's Biographies

Vakhtang Butskhrikidze, Chairman

Vakhtang Butskhrikidze joined TBC Bank as a Senior Manager of the Credit Department in 1993 and was elected as Deputy Chairman of the Management Board in 1994. He became Chairman of the Management Board in 1996. Since 1998, he has held the position of CEO of TBC Bank and has headed a number of TBC's committees.

Mr Butskhrikidze was appointed as Chief Executive Officer of the Company in May 2016 and as a member of the Supervisory Board in September 2016. Mr Butskhrikidze is also a member of the supervisory boards of the Association of Banks of Georgia and is chairman of the financial committee of the Business Association of Georgia. Since 2011 he has also held the position of member of the supervisory board of the Partnership Fund, Georgia. In 2016, Mr Butskhrikidze joined the Visa Central & Eastern Europe, Middle East and Africa (CEMEA) Business Council.

Mr Butskhrikidze obtained an MBA from the European School of Management in Tbilisi in 2001. He graduated from Tbilisi State University in 1992 with a degree in Economics and holds postgraduate qualifications from the Institute of Economics, Academy of Sciences of Georgia.

Nikoloz Kurdiani, Member

Nikoloz Kurdiani has more than ten years of experience in the banking industry which includes five years at UniCredit Group in Austria, Turkey and Kazakhstan. Immediately before joining TBC Bank in 2014, Mr. Kurdiani was Managing Director at Kaspi Bank, a leading retail bank in Kazakhstan.

Prior to obtaining his MBA degree in 2007, he served as Head of the Retail Banking Division of Bank Republic Georgia, Société Générale Group, and also held several positions at Bank of Georgia between 2003 and 2006. He has expertise in post-acquisition integration and restructuring, as well as retail and SME banking. Between 2008 and 2010, Mr. Kurdiani held the position of Senior Sales Support Expert at the CEE Retail Division of Bank Austria, UniCredit Group, responsible for Turkey, Kazakhstan, Ukraine and Serbia. Between 2010 and 2013, he was Head of the Retail Division of ATF Bank, UniCredit Group in Kazakhstan.

Mr. Kurdiani obtained his MBA degree from IE Business School in 2007. He also holds an MSc degree in International Economics from the Georgian Technical University and completed BBA studies at Ruhr-University Bochum in Germany and the Caucasus School of Business.

Mary Chahanidze, Member

Ms. Mary Chachanidze joined TBC Bank in 2017 as the Deputy Director of Corporate and Investment Banking. After 2019, she holds the position of Managing Director of TBC Capital. Before joining TBC Bank, she had worked at SEAF as Investment Director, a global investment firm headquartered in Washington, DC for 10 years. Ms. Chachanidze holds MBA degree in finance from Free University of Tbilisi.

Management Board Member's Biographies

Galoz Gogua, Chief Executive Officer (Director)

Galoz (Gaga) Gogua has served as the CEO of TBC Leasing since November 2017. Prior to his current position Mr. Gogua worked at TBC Bank which he joined in 2001 as a Credit Manager. Over the years at TBC Bank he worked in various managerial positions including, Regional Director, Branch Director and Head of Branch Credit Department. Mr. Gogua has BBA and master's degrees in physics from Georgian Technical University and an MBA degree from ESM Tbilisi.

Irakli Khatiashvili, Chief Commercial Officer

Irakli Khatiashvili joined TBC Leasing in 2018 and over the years he has served at leading Georgian Banks in credit and commercial departments at high level positions. Mr. Khatiashvili holds BBA degree in Applied Mathematics and Computer Science from Tbilisi State University.

Nugzar Loladze, Chief Financial Officer

Mr. Loladze joined TBC Leasing 2014 as the CFO. Before joining TBC Leasing, Mr. Loladze worked at Ernst & Young as senior auditor and later the leader of Transaction Advisory Services. Mr. Loladze graduated from Caucasus School of Business (CSB).

Giorgi Maisuradze, Chief Risk Officer

Mr. Maisuradze joined TBC Leasing in the beginning of 2018 as the Chief Risk Officer. He has worked in several Georgian commercial banks, in addition to working in National Bank of Georgia, as senior manager or Head of Department. He holds BBA and MBA degrees in Macroeconomics from Tbilisi State University.

Chief Executive Officer

Galoz Gogua

Chief Financial Officer

Nugzar Loladze

26 June 2020

JOINT STOCK COMPANY TBC LEASING

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

31 December 2019

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Independent Auditor's Report

To the Shareholder and Management of JSC TBC Leasing

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of JSC TBC Leasing (the "Company") as at 31 December 2019, 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 2019;
- 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 significant accounting policies and other explanatory information.

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. The other information comprises the 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. 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.

PricewaterhouseCoopers Georgia LLC
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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.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the information given in the Management Report complies with the requirements of paragraph 6 of article 7 of the Law of Georgia on Accounting, Reporting and Auditing.

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.

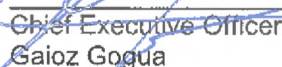
PricewaterhouseCoopers Georgia LLC

PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Levan Kankava (Reg.# SARAS-A-592839)

26 June 2020
Tbilisi, Georgia

In thousands of Georgian Lari	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	7	19,357	18,639
Prepayments	8	3,552	2,490
Tax assets, net		2,974	1,019
Advances towards leasing contracts	9	30,779	36,068
Net investment in finance lease	10	257,031	203,707
Property and equipment	11	8,253	9,278
Intangible assets	12	1,725	1,160
Investment property	13	2,210	2,100
Assets repossessed from terminated leases	14	6,129	7,805
Other financial assets	15	10,111	7,326
Other assets		197	92
TOTAL ASSETS		**342,318**	**289,684**
LIABILITIES			
Loans from banks and financial institutions	16	242,196	204,369
Advances received from customers	17	18,836	17,726
Debt Securities in issue	18	-	8,094
Derivative financial Instruments	28	734	48
Subordinated loan	19	31,227	29,247
Other liabilities	20	10,280	5,483
TOTAL LIABILITIES		**303,273**	**264,967**
EQUITY			
Share capital	21	3,659	3,059
Additional paid-in capital		7,550	2,150
Retained earnings		27,674	19,508
Cash flow hedge reserve	25	162	-
TOTAL EQUITY		**39,045**	**24,717**
TOTAL LIABILITIES AND EQUITY		**342,318**	**289,684**


Chief Executive Officer
Gaioz Gogua

Chief Financial Officer
Nugzar Loladze

26 June 2020

In thousands of Georgian Lari	Note	2019	2018
Income on investment in leases		49,174	39,190
Income from operating leasing		3,122	2,201
Interest expense		(20,680)	(15,356)
Direct leasing costs	22	(7,701)	(5,693)
Net lease income		**23,915**	**20,342**
Provision for impairment of net investment in finance lease	10	(563)	(624)
Net lease income after provision for impairment		**23,352**	**19,718**
Provision for impairment of other financial assets	15	(4,957)	(4,262)
Loss from sale/release of repossessed assets		(169)	(378)
Write-down of repossessed assets to net realizable value	14	(163)	(506)
Gain on initial recognition of repossessed assets		437	294
Administrative and other operating expenses	23	(10,371)	(9,110)
Losses net of gains from derivative financial instruments		(2,867)	(56)
Foreign exchange translation gains less losses / (losses less gains)		1,544	(227)
Other income		1,269	820
Gain/(loss) from revaluation of investment property	13	91	(199)
Profit before income tax		**8,166**	**6,094**
Income tax expense		-	-
PROFIT FOR THE YEAR		**8,166**	**6,094**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Gains on cash flow hedges	25	162	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**8,328**	**6,094**

In thousands of Georgian Lari	Share capital	Additional Paid in Capital	Cash Flow Hedge Reserve	Retained earnings	Total equity
Balance 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**
Profit for the year	-	-	-	8,166	**8,166**
Other comprehensive income			162		**162**
Shares issued	600	5,400	-	-	**6,000**
Balance at 31 December 2019	**3,659**	**7,550**	**162**	**27,674**	**39,045**

In thousands of Georgian Lari	Note	2019	2018
Cash flows from operating activities			
Cash receipts from lessees		206,675	145,976
Cash receipts from lessees before commencement		13,050	18,664
Cash receipts from sale of repossessed assets		9,549	3,208
Cash receipts from terminated lease contracts		1,431	895
Interest received from current account		291	42
Cash paid for purchase of assets for financial leasing purposes		(211,274)	(200,544)
Cash paid for direct leasing costs		(5,669)	(4,612)
Cash paid for administrative and other operating expenses		(3,374)	(2,384)
Cash paid to employees		(3,465)	(2,703)
Cash outflow from derivative financial instruments		(1,912)	(4)
Cash paid for purchase of assets for operating leasing purposes		(605)	(7,566)
Cash from / (used in) operations		**4,697**	**(49,028)**
Interest paid on subordinated loans	24	(2,683)	(1,908)
Interest paid on loans from banks and financial institutions	24	(16,821)	(11,712)
Interest paid on debt securities issued	24	(428)	(394)
Taxes paid		(10,124)	(5,204)
Net cash used in operating activities		**(25,359)**	**(68,246)**
Cash flows from investing activities			
Purchase of property and equipment	11	(520)	(410)
Purchase of intangible assets	12	(681)	(535)
Net cash used in investing activities		**(1,201)**	**(945)**
Cash flows from financing activities			
Loans from banks and financial institutions received	24	177,879	137,414
Proceeds from issuance of ordinary shares	21	6,000	-
Loans from banks and financial institutions repaid	24	(147,531)	(78,771)
Debt securities redemption	24	(8,606)	-
Repayment of lease liabilities		(598)	-
Subordinated loans repaid	24	-	(15,611)
Cash received from deposits (Due from banks)		-	4,432
Subordinated loans received	24	-	28,604
Net cash from financing activities		**27,144**	**76,068**
Effect of exchange rate changes on cash and cash equivalents		134	3,897
Net increase in cash and cash equivalents		**718**	**10,774**
Cash and cash equivalents at the beginning of the year	7	18,639	7,865
Cash and cash equivalents at the end of the year	7	**19,357**	**18,639**

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 2019 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 4,000 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 120 people on permanent bases and operates head office and three retail branches.

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

Shareholders	2019 Ownership interest, %	2018 Ownership interest, %
JSC TBC Bank (the “Parent”)	100 00%	99 61%
Minority Shareholder – individual		0 39%
Total	**100%**	**100%**

As at 31 December 2019 and 31 December 2018, the ultimate parent 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 Avenue, 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. Structural reforms and diversified sources of inflows once again paid off in 2019. Alongside its high growth potential, resilience has become another hallmark of the Georgian economy in recent years, as reflected in continuous upgrades to the country’s sovereign credit ratings. On October 11, 2019 Standard and Poor’s upgraded Georgia’s sovereign credit rating from ‘BB-’ to ‘BB’ with stable outlook.

In 2019, exports of goods, tourism and remittances inflows in US$ terms increased by 12.4%, 1.4% and 9.7% year-on-year respectively, while import of goods declined slightly by 0.8% year-on-year. Despite the Russian flight ban imposed in June and subsequent weak growth of tourism inflows, the current account deficit improved and stood at 5.1% of GDP in 2019 compared to 6.8% in 2018 on the back of stronger balance of trade in goods as well as improved remittance inflows. CA deficit was fully balanced with FDIinflows which on a net basis stood at 5.6% of GDP, up by 0.3 pp YoY. The growth was supported by the fiscal stimulus, taking into account the size of the deficit adjusted for advance payments and large capital spending with a high multiplier. This provided balancing for the weakness in the tourism industry.

2 Operating Environment of the Company (Continued)

While COVID-19 is certainly a challenge for the global as well as Georgia's tourism dependent economy, assuming the shock is predominantly temporary, rather than permanent, the economy and most of the sectors should be back to the normal growth trajectory in a reasonable timeframe. Meanwhile, it will be a challenging period, however, the Company's advanced risk management practices including stress testing and risk mitigation should pay-off.

Initial projection for 2020 growth was around 5.0% The economy was expected to expand at this rate without large scale infrastructure projects entering more active phase and assuming that the flight ban with Russia is not lifted. Due to the COVID-19 crises, we expect the economy to contract in 2020, though the growth should turn positive in 2021. While the shock is severe and the uncertainties are high, the support from the international financial institutions is an important mitigation. Also, there were no signs of overheating in the economy or housing market before the distress. Therefore, the impact of the shock on the economy and financial sector should be rather manageable.

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 IFRS16 effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated (Refer to Note 5).

Going Concern The TBC Leasing has prepared these financial statements on a going concern basis. In making this judgement the management considered the Company's financial position, current intentions, profitability of operations and access to financial resources. The management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern

New accounting policy for leases by the Company as a lessee. The Company adopted IFRS 16, Leases, using modified retrospective method and applied certain simplifications or practical expedients. Standard is effective for annual periods beginning on or after 1 January 2019. The Company has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

Hedge Accounting. In these financial statements, the Company has applied hedge accounting, for the first time. The objective of hedge accounting is to represent, the effect of risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (P&L) or other comprehensive income (OCI).

The Company applies cash flow hedge accounting. The risk being hedged in a cash flow hedge is the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, an off-balance-sheet unrecognised firm commitment or a highly probable forecast transaction and could affect profit or loss.

The requirements for hedge accounting are applied only if all of the following criteria are met:

- the hedging relationship consists only of eligible hedging instruments and eligible hedged item;
- at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements.

The hedging relationship meets all hedge effectiveness requirements if:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship, and

3 Significant Accounting Policies (Continued)

- the hedge ratio of the hedging relationship is the same as that resulting from the amount of the hedged item that the Company actually hedges and the amount of the hedging instrument that the Company actually uses to hedge that amount of hedged item.

The Company designated a hedging relationship between a hedging instrument and a hedged item as follows: A derivative such as swap contract, forward contract and back-to-back loans measured at fair value through profit or loss may be designated as a hedging instrument. A non-derivative financial asset or a non-derivative financial liability such as senior loans and investment in finance lease may be designated as a hedging instrument.

A hedged item can be a recognised asset or liability, an unrecognised firm commitment, a forecast transaction or a net investment in a foreign operation.

Effectiveness is the degree to which the changes in value of the hedged item and the hedging instrument offset each other. If the hedge is effective, changes in the fair value of the hedging instrument are initially recognised in other comprehensive income and in the cash flow hedge reserve within equity. The ineffective portion of the change in the fair value of the hedging instrument (if any) is recognised directly in the statement of profit or loss.

The amount recognised in OCI should be the lower of:

- The cumulative gain or loss on the hedging instrument from the inception of the hedge, and
- The cumulative change in the fair value of the hedged item from the inception of the hedge.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised in other comprehensive income. Any remaining gain or loss on the hedging is hedge ineffectiveness that shall be recognised in profit or loss. The change in fair values of hedging instruments designated in hedge relationships are disclosed in Note 25.

If a hedged transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the Company shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment and hence it does not affect other comprehensive income.

The amount recognized in cumulative other comprehensive income is reclassified to the income statement in the same period or periods in which hedged item affect the statement of profit or loss. However, if that amount is a loss and the Company expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

When an entity discontinues hedge accounting for a cash flow hedge that amount recognised in other comprehensive income shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment.

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

3 Significant Accounting Policies (Continued)

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 29.

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.

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.

3 Significant Accounting Policies (Continued)

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 4 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 4 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 change. 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.

Debt instruments measured at AC are presented in the 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 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.

Stage 1: 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").

- Stage 2: 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 26 for a description of how the Company determines when a SICR has occurred;
- Stage 3: 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 26.

3 Significant Accounting Policies (Continued)

For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 26 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 derecognition 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.

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).

3 Significant Accounting Policies (Continued)

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.

Net investment in finance lease/ Finance income recognition. Where the Company is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as net investments in finance 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.

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.

3 Significant Accounting Policies (Continued)

Accounting for leases by the Company as a lessee from 1 January 2019. The Company’s leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

As an exception to the above, the Company accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight-line basis.

In determining the lease term, management of the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option.

Accounting for operating leases by the Company as a lessee prior to 1 January 2019. Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss for the year on a straight-line basis over the period of the lease.

Advances towards leasing contracts. Advances towards leasing contracts are advance payments for purchase of leasing assets, which are transferred into net investment in finance lease at the commencement date of the leasing contract. Prior to 1 January 2019 advances towards leasing contracts were recognised as financial assets, this approach has been changed and in accordance with the new approach advances towards leasing contracts are recognised as non-financial assets., Please refer note 3.

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.

3 Significant Accounting Policies (Continued)

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.

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
Right of use assets	3

3 Significant Accounting Policies (Continued)

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 software and licences.

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. *A*dvances 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.

3 Significant Accounting Policies (Continued)

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.

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.

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.

3 Significant Accounting Policies (Continued)

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.

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 2019 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 2.8677 (2018: USD 1 = GEL 2.6766); EUR 1 = GEL 3.2095 (2018: EUR 1 = GEL 3.0701).

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits as well as the cash settled part of the share-based payment schemes are accrued in the year, in which the associated services are rendered by the employees of the Company.

Share based payments. A share-based payment arrangement is an agreement between the entity and another party (including an employee) that entitles the other party to receive cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity, or equity instruments (including shares or share options) of the entity or another group entity. At each balance sheet date, the Group revises its estimates of the number of equity instruments. Increase in equity on accrued shares resulting from the equity settled scheme is accounted for under share-based payment reserve. Upon award of shares to the scheme participants, respective share-based payment reserve is transferred to share capital and share premium.

Changes in presentation and correction of errors. During the year, the Company has changed its classification of administrative and other operating expenses within the statement of profit or loss and statement of cash flows, as well as the classification of advances toward leasing contract in note 26 financial risk management. The Company believes that the changes provide reliable and more relevant information about the effects of underlying transactions and conditions on the financial position. The Company also changed classifications of cash paid for the purchase of assets for operating leasing purposes to operating activities that were incorrectly presented in the cash flow statement as investing activities in prior period. In accordance with IAS 8, the changes and corrections have been made retrospectively and comparatives have been restated accordingly.

3 Significant Accounting Policies (Continued)

The Company has reclassified direct leasing costs, such as: leased asset insurance expense, property tax on leased asset and other direct costs on leased assets from the administrative expenses to direct leasing costs. The change has impacted presentation of administrative and other operating expenses, as well as statement of profit and loss and statement of cash flows.

The table below represents changes in the presentation for statement of profit and loss:

In thousands of Georgian Lari	**2018 Originally presented**	**Reclassification**	**2018 As reclassified**
Income on investment in leases	39,190		39,190
Income from operating leasing	2,201		2,201
Interest expense	(15,356)		(15,356)
Direct leasing costs	-	(5,693)	(5,693)
Net lease income	**26,035**	**(5,693)**	**20,342**
Provision for impairment of net investment in finance lease	(624)		(624)
Net lease income after provision for impairment of net investment in finance lease	**25,411**	**(5,693)**	**19,718**
Provision for impairment of other financial assets	(4,262)		(4,262)
Other income	820		820
Gain on initial recognition of repossessed assets	294		294
Write-down of repossessed assets to net realizable value	(506)		(506)
Loss from sale and release of repossessed assets	(378)		(378)
Losses net of gains from derivative financial instruments	(56)		(56)
Foreign exchange translation gains less losses	(227)		(227)
Administrative and other operating expenses	(14,803)	5,693	(9,110)
Gain/(loss) from revaluation of investment property	(199)		(199)
Profit before income tax	**6,094**	**-**	**6,094**
Income tax expense	-		
PROFIT FOR THE YEAR	**6,094**	**-**	**6,094**
Other comprehensive income	-		
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**6,094**	**-**	**6,094**

3 Significant Accounting Policies (Continued)

The table below represents changes in the presentation for cash flow statement:

In thousands of Georgian Lari	2018 Originally presented	Reclassification	2018 As reclassified
Cash flows from operating activities			
Cash receipts from lessees	145,976		145,976
cash receipts from lessees before commencement	18,664		18,664
Cash receipts from sale of repossessed assets	3,208		3,208
Cash receipts from terminated lease contracts	895		895
Cash paid for purchase of assets for financial leasing purposes	(200,544)		(200,544)
Cash paid for purchase of assets for operating leasing purposes	-	(7,566)	(7,566)
Cash paid for direct leasing costs	-	(4,612)	(4,612)
Cash paid for administrative and other operating expenses	(6,996)	4,612	(2,384)
Cash paid to employees	(2,703)		(2,703)
Cash received from interest on current and on demand account in bank	42		42
Cash used in operations	**(41,458)**	**(7,566)**	**(49,024)**
Interest paid on subordinated loans	(1,908)		(1,908)
Interest paid on loans from banks and financial institutions	(11,712)		(11,712)
Interest paid on debt securities issued	(394)		(394)
Taxes paid	(5,204)		(5,204)
Net cash used in operating activities	**(60,676)**	**(7,566)**	**(68,242)**
Cash flows from investing activities			
Purchase of property and equipment	(7,976)	7,566	(410)
Purchase of intangible assets	(535)		(535)
Net cash used in investing activities	**(8,511)**	**7,566**	**(945)**
Cash flows from financing activities			
Loans from banks and financial institutions received	137,414		137,414
Subordinated loans received	28,604		28,604
Subordinated loans repaid	(15,611)		(15,611)
Cash received from deposits (Due from banks)	4,432		4,432
Cash outflow from derivative financial instruments	(4)		(4)
Loans from banks and financial institutions repaid	(78,771)		(78,771)
Net cash from financing activities	**76,064**	**-**	**76,064**
Effect of exchange rate changes on cash and cash equivalents	3,897		3,897
Net increase in cash and cash equivalents	**10,774**	**-**	**10,774**
Cash and cash equivalents at the beginning of the year	7,865		7,865
Cash and cash equivalents at the end of the year	**18,639**	**-**	**18,639**

3 Significant Accounting Policies (Continued)

The table below represents the effect of reclassification on presentation of administrative and other operating expenses:

In thousands of Georgian Lari	2018 Originally presented	Reclassification	2018 As reclassified
Staff costs	3,937		3,937
Insurance expenses	3,476	(3,414)	62
Taxes other than income tax	2,289	(1,933)	356
Depreciation and amortization charge	996		996
Professional services	926		926
Occupancy and rent	511		511
Expenses on assets maintenance	504	(66)	438
Advertising costs	424		424
Leased assets registration fee	311	(280)	31
Bank charges	165		165
Land and buildings maintenance	52		52
Withholding tax on non-residents	10		10
Other expenses	1,202		1,202
Total administrative and other operating expenses	**14,803**	**(5,693)**	**9,110**

The Company changed classification of advances toward leasing contract. Prior to 1 January 2019 advances towards leasing contracts were recognised as financial assets. In accordance with the new approach advances towards leasing contracts are recognised as non-financial assets. This change in presentation did not have a material impact on the Company's statement of financial position and statement of profit or loss but impacted the Financial Risk Management note.

The effect of reclassifications on Company's exposure to foreign currency exchange rate risk at 31 December 2018 per new approach is presented in the table below:

In thousands of Georgian Lari	GEL	USD	EUR	GBP	TOTAL
Cash and cash equivalents	6,866	11,117	605	51	**18,639**
Net investment in finance lease	63,740	116,997	22,970	-	**203,707**
Derivative financial Instruments	3,642	4,599	-	-	**8,241**
Other financial assets	2,667	3,679	980	-	**7,326**
Total financial assets	**76,915**	**136,392**	**24,555**	**51**	**237,913**
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	1,117	320	3,202	-	**4,639**
Total financial liabilities	**95,979**	**146,749**	**29,636**	**-**	**272,364**
Net open currency position before the effect of economic hedges	**(19,064)**	**(10,357)**	**(5,081)**	**51**	**(34,451)**
Effect of economic hedges	17,382	11,173	7,513	-	**36,068**
Net open currency position	**(1,682)**	**816**	**2,432**	**51**	**1,617**

* Non-monetary advances that will be converted to lease portfolio upon commencement date Given short timing and remote likelihood of advances not turning into foreign currency leases, management considered them for analysis of net open currency position

3 Significant Accounting Policies (Continued)

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

In thousands of Georgian Lari	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	1,117	320	3,202	-	**4,639**
Total financial liabilities	**95,979**	**146,749**	**29,636**	**-**	**272,364**
Net open currency position	**(1,682)**	**816**	**2,432**	**51**	**1,617**

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:

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.

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 16, Leases. IFRS 16 replaces IAS 17 Leases for annual periods beginning on or after 1 January 2019. The company has adopted IFRS 16 retrospectively from 1 January 2019 with certain simplifications and has not restated comparatives for the previous reporting periods, as permitted under the specific transitional provisions in the standard (modified retrospective approach). The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The comparative information for 2018 is reported under IAS 17 and is not comparable to the information presented for 2019.

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

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rates as of 1 January 2019 which were applied on a portfolio basis of leases with reasonably similar characteristics.

The average incremental borrowing rates applied to the lease liabilities on 1 January 2019 was 7.3% for USD denominated contracts and 11.4% for GEL denominated contracts.

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The following table reconciles the obligations in respect of operating leases as at 31 December 2018 to the opening lease liabilities recognized on 1 January 2019:

In thousands of Georgian Lari	**1 January 2019**
Total future minimum lease payments for non-cancellable* operating leases as at 31 December 2018	1,241
- Less commitment not giving right to ROA	(760)
- Effect of discounting to present value	(53)
-Less short-term and low-value leases not recognised as a liability	(21)
Total lease liabilities recognised as at 1 January 2019	**407**
Of which are	
Current lease liabilities	**174**
Non-current lease liabilities	**233**

* Non-cancellable leases include those cancellable only (a) upon the occurrence of some remote contingency, (b) with the permission of the lessor, (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor, or (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain

The change in accounting policy affected the following items in the balance sheet on 1 January 2019: right-of-use assets – increase by GEL 407 thousand; lease liabilities – increase by GEL 407 thousand.

The net impact on retained earnings on 1 January 2019 was nil.

The right of use assets by class of underlying items is analysed as follows:

In thousands of Georgian Lari	**Buildings**	**Total**
Carrying amount at 1 January 2019	**407**	**407**
Additions	731	**731**
Depreciation charge	(404)	**(404)**
Carrying amount at 31 December 2019	**734**	**734**

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

IFRS 16 subsequent recognition and policies. As at 31 December 2019, the balances of Right of the use asset and the Lease liability are GEL 734 thousand and GEL 796 thousand respectively. The interest charge on lease liabilities presented within interest expense amounted GEL 75 thousand, recognized within interest expense.

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.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Adoption of other IFRS

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Company:

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

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 2020 or later, and which the Company has not early adopted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary

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

6 New Accounting Pronouncements (Continued)

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.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term ‘outputs’ is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a ‘concentration test’. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates (‘IBORs’). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be ‘highly probable’. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity

6 New Accounting Pronouncements (Continued)

frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

6 New Accounting Pronouncements (Continued)

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8.

7 Cash and Cash Equivalents

In thousands of Georgian Lari	31 December 2019	31 December 2018
Current accounts with banks	19,357	18,639
Cash and cash equivalents	**19,357**	**18,639**

At 31 December 2019, cash and cash equivalents of GEL 16,993 thousand (2018: GEL 17,371 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:

In thousands of Georgian Lari	31 December 2019	31 December 2018
Current accounts with banks with "BB-" to "BB+" rating	19,081	17,619
Current accounts with banks with "B-" to "B+" rating	23	26
Current accounts with banks unrated	253	994
Cash and cash equivalents	**19,357**	**18,639**

As of 31 December 2019, no cash balances were pledged as collateral for loans obtained from banks and financial institutions.

7 Cash and Cash Equivalents (Continued)

The information on related party balances and transactions is disclosed in Note 31.

Investing and financing transactions that did not require the use of cash and cash equivalents, and were excluded from the statement of cash flows are as follows:

In thousands of Georgan Lari	31 December 2019	31 December 2018
Recognition of right of use assets against lease liabilities	1,138	-
Non-cash investing activities	**1,138**	**-**

In thousands of Georgian Lari	31 December 2019	31 December 2018
Initial recognition of lease liabilities	1,138	
Non-cash financing activities	**1,138**	**-**

The information about leases recognised according to IFRS 16 disclosed in Note 5.

8 Prepayments

In thousands of Georgian Lari	31 December 2019	31 December 2018
Prepaid insurance for leasing assets	3,414	2,463
Other prepayments	138	27
Total prepayments	**3,552**	**2,490**

9 Advances towards Leasing Contracts

Advances towards leasing contracts at the year-end comprised GEL 30,779 thousand as at 31 December 2019 (2018: GEL 36,068 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.

10 Net Investments in Finance Lease

Net and gross investments in finance lease are as follows:

In thousands of Georgian Lari	31 December 2019	31 December 2018
Gross investment in finance lease	341,474	270,870
Unearned finance income	(81,712)	(64,706)
Investment in finance lease	**259,762**	**206,164**
Allowance for impairment	(2,731)	(2,457)
Total net investments in finance lease	**257,031**	**203,707**

10 Net Investments in Finance Lease (Continued)

Gross investments in finance lease are as follows:

In thousands of Georgian Lari	31 December 2019	31 December 2018
Due in less than 1 year	148,624	122,218
Due in between 1 and 5 years	192,850	148,652
Total gross investments in finance lease	**341,474**	**270,870**

The Company has not the contractual amount outstanding on net investment in finance lease, that were written off during the 2019 and 2018 reporting period and are still subject to enforcement activity.

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 Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 31 December 2018	**627**	**229**	**1,599**	**2,455**	**176,933**	**10,860**	**18,372**	**206,165**
Transfers								
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1	(1)	-	-	4,969	(2,972)	(1,997)	-
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(14)	14	-	-	(5,951)	6,598	(647)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(241)	(58)	299	-	(22,099)	(2,941)	25,040	-
New originated or purchased	1,321	76	81	**1,478**	138,879	18,664	5,785	**163,328**
Derecognised during the period	(176)	(169)	(1,401)	**(1,746)**	(55,562)	(4,849)	(10,406)	**(70,817)**
Partial repayment	-	-	-	-	(34,837)	(2,163)	(8,874)	**(45,874)**
Foreign currency effect	-	-	-	-	2,714	175	1,057	**3,946**
Changes to ECL measurement model assumptions	11	8	525	**544**	-	-	-	-
Other movements					1,026	394	1,594	**3,014**
At 31 December 2019	**1,529**	**99**	**1,103**	**2,731**	**206,072**	**23,766**	**29,924**	**259,762**

10 Net Investments in Finance Lease (Continued)

In thousands of Georgian Lari	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 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	-	-	-	-	2,002	277	1,085	**3,364**
At 31 December 2018	**627**	**229**	**1,599**	**2,455**	**176,933**	**10,860**	**18,372**	**206,165**

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 realizability 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 2019:

In thousands of Georgian Lari	**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	228,651	365,934	31,111	21,041

10 Net Investments in Finance Lease (Continued)

The effect of collateral at 31 December 2018:

	Over-Collateralised assets		Under-Collateralised assets	
In thousands of Georgian Lari	*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

As at 31 December 2019, credit quality of net investment in finance lease is analysed below:

In thousands of Georgian lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Investments in Finance Lease risk category				
- Very Low	175,760	-	-	**175,760**
- Low	30,312	16,008	-	**46,320**
- Moderate	-	4,015	-	**4,015**
- High	-	3,743	-	**3,743**
- Default	-	-	29,924	**29,924**
Gross carrying amount	**206,072**	**23,766**	**29,924**	**259,762**
Credit loss allowance	(1,529)	(99)	(1,103)	**(2,731)**
Carrying amount	**204,543**	**23,667**	**28,821**	**257,031**

As at 31 December 2018, credit quality of net investment in finance lease is analysed below:

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**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 Property and Equipment

In thousands of Georgian Lan	Land	Premises	Computer and office equipment	Furniture and Fixtures	Vehicles	Vehicles for Fleet	Leasehold improvement	Right of use Assets	Total
Cost at 1 January 2018	10	-	230	251	292	2,436	252	-	**3,471**
Accumulated depreciation	-	-	(76)	(74)	(45)	(88)	(60)	-	**(343)**
Carrying amount at 1 January 2018	**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 and repossessed assets	-	-	-	-	-	(514)	-	-	**(514)**
Depreciation charge	-	-	(32)	(42)	(61)	(815)	(35)	-	**(985)**
Elimination of accumulated depreciation on disposals and transfers	-	-	-	-	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 018	**10**	**-**	**152**	**216**	**368**	**8,429**	**103**	**-**	**9,278**
Adoption of IFRS 16 at 1 January 2019								**407**	**407**
Additions	13	7	142	71	85	605	55	731	**1,709**
Disposals	-	-	-	-	(129)	(461)		-	**(590)**
Transfer to financial lease and repossessed assets	-	-	-	-	-	(1,036)	-	-	**(1,036)**
Depreciation charge	-	(1)	(43)	(49)	(60)	(1,176)	(40)	(404)	**(1,773)**
Elimination of accumulated depreciation on disposals and transfers	-	-	-	-	21	237	-	-	**258**
Carrying amount at 31 December 2019	**23**	**6**	**251**	**238**	**285**	**6,598**	**118**	**734**	**8,253**
Cost at 31 December 2019	23	7	402	403	408	8,360	173	1,138	**10,914**
Accumulated depreciation	-	(1)	(151)	(165)	(123)	(1,762)	(55)	(404)	**(2,661)**
Carrying amount at 31 December 2019	**23**	**6**	**251**	**238**	**285**	**6,598**	**118**	**734**	**8,253**

12 Intangible Asset

In thousands of Georgian Lari	Leasing ERP Software	Other intangible assets	Total
Carrying amount at 1 January 2018	**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 amortization	(9)	(33)	**(42)**
Carrying amount at 31 December 2018	**1,136**	**24**	**1,160**
Additions	576	-	**576**
Amortization charge	(11)	-	**(11)**
Carrying amount at 31 December 2019	**1,701**	**24**	**1,725**
Cost at 31 December 2019	1,721	57	**1,778**
Accumulated depreciation	(20)	(33)	**(53)**
Carrying amount at 31 December 2019	**1,701**	**24**	**1,725**

As at 31 December 2019 and 2018 leasing ERP software was in testing phase and respectively no amortization expense was charged.

13 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 other asset 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 court in order to cancel the auction results. In 2016 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. During the year 2019 water drain works has been performed and the associated costs 19,169 GEL has been capitalized. As of 31 December 2019, the Company had not started any other 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 2019 the fair value of investment property was estimated at GEL 2,210,000 as determined based on the valuation performed by Baker Tilly Georgia LLC, an accredited independent appraiser in Georgia, in accordance with International Valuation Standards and the Code of Conduct issued by International Valuation Standards Committee. The appraiser used market approach based on the highest and best use analysis of the property. The gain from revaluation of investment property measured at fair value GEL 90,831 for year 2019 was recognised in profit and loss.

13 Investment Property (Continued)

In thousands of Georgian Lari	Transferred from repossessed assets at cost	Fair value as of 31 December 2019	Valuation technique	Other key information	Un-observable inputs	Range of unobservable inputs (weighted average)	Sensitivity of the input to fair value
Investment property	891	2,210	Sales comparison approach	Land and building	Price per square meter	120 - 150	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value

Sensitivity analysis. 10% increase or decrease in the price per square metre would result in increase or decrease of GEL 221,000 in fair value of the investment property.

Investment property as at 31 December 2018:

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

14 Assets Repossessed from Terminated Leases

In thousands of Georgian Lari	31 December 2019	31 December 2018
Carrying value at the beginning of the year	7,805	3,328
Assets repossessed from terminated leases during the year at fair value	8,955	13,044
Disposal through sales	(6,327)	(2,736)
Disposal through transfer to new leases	(4,141)	(5,325)
Write down to net realizable value	(163)	(506)
Carrying amount at the end of the year	**6,129**	**7,805**

Write down to net realisable value of GEL 163 thousand (2018: GEL 506 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 169 thousand and GEL 378 thousand for 2019 and 2018 years respectively.

15 Other Financial Assets

In thousands of Georgian Lari	31 December 2019	31 December 2018
Gross receivables from terminated lease	17,868	11,740
Less Provision for impairment of receivables from terminated leases	(11,908)	(7,651)
Total carrying amount of receivable from terminated leases at AC	**5,960**	**4,089**
Gross other receivables	6,107	4,379
Less Provision for other receivables	(3,051)	(2,550)
Total carrying number of other receivables at AC	**3,056**	**1,829**
Gross loans issued to lessees	3,311	3,425
Less Provision for loans issued to lessees	(2,216)	(2,017)
Total carrying amount of loans issued to lessees at AC	**1,095**	**1,408**
Total other financial assets	**10,111**	**7,326**

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			
In thousands of Georgian Lari	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 31 December 2018	**-**	**-**	**12,218**	**12,218**	**-**	**-**	**19,544**	**19,544**
Transferred from net investment in leases	-	-	7,417	**7,417**	-	-	12,714	**12,714**
Derecognised during the period	-	-	(2,554)	**(2,554)**	-	-	(4,757)	**(4,757)**
Changes due to change in credit quality	-	-	94	**94**	-	-	-	**-**
Other movements	-	-	-	**-**	-	-	(215)	**(215)**
At 31 December 2019	**-**	**-**	**17,175**	**17,175**	**-**	**-**	**27,286**	**27,286**

	Credit loss allowance				Gross carrying amount			
In thousands of Georgian Lari	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2018	**-**	**-**	**7,956**	**7,956**	**-**	**-**	**12,003**	**12,003**
Transfers								
Transferred from net investment in leases	-	-	6,755	**6,755**	-	-	11,673	**11,673**
Derecognised during the period	-	-	(2,073)	**(2,073)**	-	-	(3,566)	**(3,566)**
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 Loans from Banks and Financial Institutions

Loans from Banks and financial institutions:

In thousands of Georgıan Ları	31 Dec 2019	31 Dec 2018
Loans from foreign banks and financial institutions	**105,497**	**95,667**
Georgıan Larıs	20,772	12,622
US Dollars	56,394	73,785
Euros	28,331	9,260
Loans from local banks and financial institutions	**136,699**	**108,702**
Georgıan Larıs	69,215	67,319
US Dollars	37,663	33,689
Euros	29,821	7,694
Total loans from banks and financial institutions	**242,196**	**204,369**

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 9. The amount of gross investment in leases pledged as collateral comprised 203,899 thousand GEL (2018: GEL 193,356 thousand) and the amount of advances towards leasing contracts pledged as collateral comprised 55,665 thousand GEL (2018: GEL 24,962 thousand).

The Company is obliged to comply with certain financial covenants stipulated by the loan agreements. At 31 December 2019 and 2018, management of the Company believes that the Company was in compliance with those covenants.

As at 31 December 2019 accrued interest payable included in loans from banks and financial institutions amounted to GEL 2,074 thousand (2018: GEL 1,726 thousand).

Refer to Note 29 for the estimated fair value of loans from banks and financial institutions. The information on related party balances and transactions is disclosed in Note 31.

17 Advances Received from Customers

Advances from customers that were outstanding at the year-end comprised GEL 18,836 thousand as at 31 December 2019 (2018: GEL 17,726 thousand). By defaults 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 15,050 thousand as at 31 December 2019 (2018: GEL 9,522 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.

18 Debt Securities in Issue

In thousands of Georgıan Ları	Currency	Maturity date	31 December 2019	31 December 2018
Bonds ıssued on domestıc market	USD	22 07 2019	-	8,094
Total debt securities in issue			**-**	**8,094**

19 Subordinated Loans

In thousands of Georgian Lari	Maturities	31 December 2019	31 December 2018
Subordinated loans from TBC	31 07 2023	2,448	2,445
Subordinated bonds	25 01 2023	28,779	26,802
Total Subordinated Loan		**31,227**	**29,247**

As at 31 December 2019, accrued interest payable included in subordinated loans amounted to GEL 333 thousand (2018: GEL 307 thousand).

Refer to Note 29 for the estimated fair value of subordinated loans. The information on related party balances and transactions is disclosed in Note 31.

20 Other Liabilities

In thousands of Georgian Lari	31 Decemebr 2019	31 December 2018
Liabilities to asset providers	7,170	3,695
Lease liabilities	796	
Liabilities to service providers	520	589
Accrued expenses	341	355
Total other financial liabilities	**8,827**	**4,639**
Bonuses payable	1,453	844
Total other non-financial liabilities	**1,453**	**844**
Total other liabilities	**10,280**	**5,483**

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

21 Share Capital

The share capital of the Company as at 31 December 2019 was GEL 3,659 thousand (2018: GEL 3,059 thousand). On December 2019 company issued 600,000 GEL ordinary shares with face value of 1,000 GEL each and issue price of 10,000 GEL per share. Total number of authorised, issued and paid shares comprised 3,659 common shares with par value of GEL 1,000 each. Each share carries one vote.

22 Direct Leasing Costs

In 2019, the company has allocated such expenses from the administrative expenses, which are provided by the leasing schedule and will be reimbursed by the client.

The table below represent direct leasing costs for 2019 and 2018 years respectively.

In thousands of Georgian Lari	2019	2018
Insurance expenses	4,468	3,414
Property tax on leasing assets	2,881	1,933
Other leasing costs	352	346
Total direct leasing costs	**7,701**	**5,693**

For more information about change in accounting presentation please refer note 3.

23 Administrative and Other Operating Expenses

In thousands of Georgian Lari	2019	2018
Staff costs	5,067	3,937
Depreciation and amortization charge	1,784	996
Professional services	834	926
Bank charges	508	165
Expenses on assets maintenance	507	438
Advertising costs	362	424
Taxes other than income tax	353	356
Leased assets registration fee	-	31
Occupancy and rent	116	511
Land and buildings maintenance	95	52
Withholding tax on non-residents	-	10
Other expenses	726	1,202
Other property insurance expenses	19	62
Total administrative and other operating expenses	**10,371**	**9,110**

24 Reconciliation of Liabilities Arising from Financing Activities

	Liabilities from financing activities			
In thousands of Georgian Lari	**Loans from banks and financial institutions**	**Debt Securities in Issue**	**Subordinated Loan**	**Total**
Net debt at 31 December 2018	**204,369**	**8,094**	**29,247**	**241,710**
Cash flows	13,527	(9,034)	(2,683)	**1,810**
Foreign exchange adjustments	6,328	577	1,924	**8,829**
Interest accrual	17,124	337	2,789	**20,250**
Other non-cash movements	848	26	(50)	**824**
Net debt at 31 December 2019	**242,196**	**-**	**31,227**	**273,423**

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.

25 Hedging

The objective of hedge accounting is to manage or mitigate risks associated with open currency position, which arises through day to day business operations of the Company. Financial instruments are being used to manage exposures arising from particular risks that could affect profit or loss.

The risk management strategy and how it is applied to manage risk

Company gets involved in hedging relationship mainly at two points throughout the leasing lifecycle, to manage following risk exposures:

1. At the leasing contract inception date, before cash is transferred to the supplier, for purchase of leasing assets, Company's foreign currency risk exposure arises, where the leasing currency differs from the purchase agreement currency. The firm commitment to lease asset purchase is designated as a hedged item and a derivative financial instrument (asset), as a hedging instrument. If the leasing currency is denominated in a foreign currency and the asset purchase agreement denominated in the functional currency (GEL), the firm commitment to net investment in the finance lease (NIFL) is designated as a hedged item and a derivative financial instrument (liability), as a hedging instrument.

25 Hedging (Continued)

2. After the leasing contract transaction date, i.e. when the funds are transferred to the supplier for purchase of a leasing asset, the Company recognises an advance toward leasing contract, as a non-financial asset. Based on the non-cancellable leasing contract, at the transaction date a non-cancellable firm commitment for net investment in finance lease exists and in cases leasing is denominated in different foreign currency than the advance payment, new open currency position is established and the Company uses hedge instruments to manage this risk. Therefore, from transaction to commencement date the Company designates firm commitment to NIFL as a hedged item and a senior loan as a hedging instrument.

Hedging instruments and Hedged items

For the hedge accounting purposes a firm commitment to lease asset purchase and firm commitment to NIFL are hedged items. Swap contracts, forward contracts, Back-To-Back loan and Senior loans are used by the Company to hedge an open currency risk and are designated as a hedging instrument. As Company uses hedging instruments to hedge forecast transactions, it is engaged in the cash flow hedge relationship.

The table below represents the hedging positions as of 31 December 2019:

Amounts expressed in thousands of nominal currency

Type		Currency	Amount in nominal	Rate	Maturity	Line item reporting in the Statement of Financial Position
Hedged item	Firm commitment to lease asset purchase	USD	3,915		-	Off-balance sheet exposure
Hedging Instrument	Swap contracts	USD	3,254	3 0058-3 0455 USD/GEL	Oct-21	Derivative financial Instrument
Hedging Instrument	Forward contracts	USD	661	1 1215 EUR/USD	Jan-20	Derivative financial Instrument
Hedged item	Firm commitment to lease asset purchase	EUR	3,869		-	Off-balance sheet exposure
Hedging Instrument	Swap contracts	EUR	3,869	3 3412-3 4166 EUR/GEL	Oct-21	Derivative financial Instrument
Hedged item	Firm commitment to NIFL	EUR	451			Off-balance sheet exposure
Hedging Instrument	Back-to-Back loans	EUR	451	3 2829 EUR/GEL	Dec-19	Derivative financial Instrument

Amounts expressed in thousands of nominal currency

Type		Currency	Amount in nominal	Maturity	Line item reporting in the Statement of Financial Position
Hedged item	Firm commitment to NIFL	USD	5,370	-	Advances towards leasing contracts
Hedging Instrument	Senior loan	USD	5,370	Feb-21	Loans from banks and financial institutions
Hedged item	Firm commitment to NIFL	EUR	2,526	-	Advances towards leasing contracts
Hedging Instrument	Senior loan	EUR	2,526	Mar-22	Loans from banks and financial institutions

In order to define economic relationship between hedged items and hedging instruments the Company primarily analyzes the nominal amount, currency and maturity of the hedging instrument and the hedged item and if they match or are closely aligned. On the basis of a qualitative assessment of those critical terms the Company concludes that because of same risks characteristics, the value of hedging instrument and the hedged item move in opposite directions and hence an economic relationship exists between the hedged item and the hedging instrument.

25 Hedging (Continued)

The hedge ratio reflects the relationship between the amount of the hedged item and the amount of the hedging instrument that the Company actually uses. As it is shown in tables above, ratio between hedging instruments and hedged items is 1:1, but it should be noted that only respective portion of the financial instruments are designated as hedging instruments and assigned to hedged items. The remaining portion of the hedging instruments are not subject to hedge accounting and are used in other day to day operations of the company.

The amounts that have affected statement of comprehensive income and statement of profit or loss as a result of applying hedge accounting, is disclosed bellow:

Hedge Item Type *In thousands of Georgian Lari*	**The amount recognised in Other Comprehensive Income**	**The amount recognised In Profit or Loss**
Firm commitment to lease asset purchase	(188)	-
Firm commitment to NIFL	26	-
Gains on cash flow hedges	**(162)**	**-**

How hedging activities might affect the amount, timing and uncertainty of future cash flows

Hedge accounting reduces the risk associated with open currency position, that may have a significant impact on the Company's financial statements. Hedging instruments allow the Company to be more secured from currency risks associated with probable forecast cash flow transaction with uncertain future FX rates.

At the inception of the lease agreement, Company enters into three party relationship. According to non-cancellable lease contract and non-cancellable purchase agreement, Company has to transfer funds for respective assets. At the very inception of the agreement Company agrees on commitment of transferring funds, execution of which are highly probable, because without it leasing relationship cannot be fulfilled.

26 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.

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.

26 Financial Risk Management (Continued)

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. Generally, lifetime is set equal to the remaining contractual maturity of the financial instrument. 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 leases.

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.

Significant increase in credit risk ("SICR"): For each financial instrument and on each reporting date, the Leasing Company evaluates whether there has been a significant increase of credit risk since initial recognition (SICR feature). To identify the SICR feature at individual financial instrument level, the Leasing Company is performing the holistic analysis of range of factors, including those which are specific to a particular financial instrument and to a lessee.

26 Financial Risk Management (Continued)

The table below summarizes the details of the approach followed by the Company.

SICR indicator	Entrance conditions	Exit conditions	Leasing Company
1. DPD 30 threshold	The number of days past due exceeded the limit of 30 days (irrespective of the overdue amount) In case of Corporate/SME borrowers, if the entrance condition is met to at least one contract, all of the borrower's contracts are classified to Stage 2	The number of days past due does not exceed 30 anymore (irrespective of the overdue amount) In case of Corporate/SME borrowers, no contract is overdue by more than 30 days anymore	**Applicable**
2. Default status recorded during last 6 months	The contract was in default during the last 6 months since the reporting date	More than 6 months has passed since the contract's last default exit date	**Applicable**
3. Restructuring	The contract was restructured but the restructuring is not distressed, i.e. the exposure is not defaulted	The contract has completed the restructuring probation period successfully and is no longer classified as restructured	**Applicable,** SICR will be identified if the restructuring of the contract is classified as 'performing restructuring' in the internal classification 'Commercial restructuring' classification will not be treated as the SICR trigger

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.

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 parameter. 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

26 Financial Risk Management (Continued)

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.

The Company's exposure to foreign currency exchange rate risk as at 31 December 2019 is presented in the table below:

In thousands of Georgian Lari	GEL	USD	EUR	Other	TOTAL
Cash and cash equivalents	17,856	762	700	39	**19,357**
Net investment in finance lease	122,453	89,550	45,028	-	**257,031**
Derivative financial Instruments	3,195	30,928	25,676	-	**59,799**
Other financial assets	5,706	4,405	-	-	**10,111**
Total financial assets	**149,210**	**125,645**	**71,404**	**39**	**346,298**
Loans from banks and financial institutions	89,987	94,057	58,152	-	**242,196**
Advances received from customers	7,183	9,269	2,384	-	**18,836**
Subordinated loan	2,448	28,779	-	-	**31,227**
Derivative financial Instruments	56,681	-	3,852	-	**60,533**
Other financial liabilities	1,102	1,409	6,316	-	**8,827**
Total financial liabilities	**157,401**	**133,514**	**70,704**	**-**	**361,619**
Net open currency position before the effect of economic hedges	**(8,191)**	**(7,869)**	**700**	**39**	**(15,321)**
Effect of economic hedges*	26,271	5,009	(663)	-	**30,617**
Net open currency position	**18,080**	**(2,860)**	**37**	**39**	**15,296**

* Non-monetary advances that will be converted to lease portfolio upon commencement date Given short timing and remote likelihood of advances not turning into foreign currency leases, management considered them for analysis of net open currency position

26 Financial Risk Management (Continued)

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

In thousands of Georgian Lari	GEL	USD	EUR	GBP	TOTAL
Cash and cash equivalents	6,866	11,117	605	51	**18,639**
Net investment in finance lease	63,740	116,997	22,970	-	**203,707**
Derivative financial Instruments	3,642	4,599	-	-	**8,241**
Other financial assets	2,667	3,679	980	-	**7,326**
Total financial assets	**76,915**	**136,392**	**24,555**	**51**	**237,913**
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	1,117	320	3,202	-	**4,639**
Total financial liabilities	**95,979**	**146,749**	**29,636**	**-**	**272,364**
Net open currency position before the effect of economic hedges	**(19,064)**	**(10,357)**	**(5,081)**	**51**	**(34,451)**
Effect of economic hedges	17,382	11,173	7,513	-	**36,068**
Net open currency position	**(1,682)**	**816**	**2,432**	**51**	**1,617**

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% (2018: 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 2019		31 December 2018	
In thousands of Georgian Lari	**Impact on profit or loss before tax**	**Impact on equity**	**Impact on profit or loss before tax**	**Impact on equity**
US Dollar/ Euros strengthening by 10% (2018 10%)	282	282	325	325
US Dollar/ Euros weakening by 10% (2018 10%)	(282)	(282)	(325)	(325)

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.

26 Financial Risk Management (Continued)

As at 31 December 2019 or 2018 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 2019 and 2018 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 2019, categorised by the earlier of contractual interest re-pricing or maturity dates.

In thousands of Georgian Lari	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	19,357	-	-	-	**19,357**
Net investment in finance lease	19,747	15,743	70,025	151,516	**257,031**
Derivative financial Instruments	35,832	8,603	15,364	-	**59,799**
Other financial assets	7,487	125	1,746	753	**10,111**
Total financial assets	**82,423**	**24,471**	**87,135**	**152,269**	**346,298**
Financial Liabilities					
Loans from banks and financial institutions	1,909	31,815	141,616	66,856	**242,196**
Debt securities in issue	-	-	-	-	**-**
Advances received from customers	16,591	1,312	933	-	**18,836**
Subordinated loan	103	-	-	31,124	**31,227**
Derivative financial Instruments	35,589	8,603	16,341	-	**60,533**
Other financial liabilities	7,778	119	643	287	**8,827**
Total financial liabilities	**61,970**	**41,849**	**159,533**	**98,267**	**361,619**
Net interest rate sensitivity gap before effect of economic hedges	**20,453**	**(17,378)**	**(72,398)**	**54,002**	**(15,321)**
Effect of economic hedges	24,474	4,939	1,204	-	**30,617**
Net interest rate sensitivity gap	**44,927**	**(12,439)**	**(71,194)**	**54,002**	**15,296**

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.

26 Financial Risk Management (Continued)

In thousands of Georgian Lari	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**
Net investment in finance lease	18,544	12,728	56,392	116,043	**203,707**
Other financial assets	5,123	131	868	1,204	**7,326**
Total financial assets	**42,306**	**12,859**	**57,260**	**117,247**	**229,672**
Financial Liabilities					
Loans from banks and financial institutions	1,352	9,965	96,541	96,511	**204,369**
Debt securities in issue	64	-	8,030	-	**8,094**
Advances received from customers	16,158	1,290	278	-	**17,726**
Subordinated loan	34	-	-	29,213	**29,247**
Derivative financial Instruments	48	-	-	-	**48**
Other financial liabilities	2,772	1,728	139	-	**4,639**
Total financial liabilities	**20,428**	**12,983**	**104,988**	**125,724**	**264,123**
Net interest rate sensitivity gap before effect of economic hedges	**21,878**	**(124)**	**(47,728)**	**(8,477)**	**(34,451)**
Effect of economic hedges	33,182	1,652	1,234	-	**36,068**
Net interest rate sensitivity gap	**55,060**	**1,528**	**(46,494)**	**(8,477)**	**1,617**

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 2019 is as follows:

In thousands of Georgian Lari	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	TOTAL
Financial Liabilities					
Loans from banks and financial institutions	3,620	35,333	149,755	70,488	259,196
Debt securities in issue	-	-	-	-	-
Advances received from customers	16,591	1,312	933	-	18,836
Subordinated loan	3,859	7,027	17,878	44,468	73,232
Derivative financial Instruments	35,589	8,603	16,341	-	60,533
Other financial liabilities	7,778	119	643	287	8,827
Total potential future payments for financial liabilities	**67,437**	**52,394**	**185,550**	**115,243**	**420,624**

26 Financial Risk Management (Continued)

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

In thousands of Georgian Lari	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	TOTAL
Financial Liabilities					
Loans from banks and financial institutions	3,206	12,394	105,664	101,703	222,967
Debt securities in issue	259	-	8,323	-	8,582
Advances received from customers	16,158	1,290	278	-	17,726
Subordinated loan	623	340	1,990	37,642	40,595
Derivative financial Instruments	48	-	-	-	48
Other financial liabilities	2,772	1,728	139	-	4,639
Total potential future payments for financial liabilities	**23,066**	**15,752**	**116,394**	**139,345**	**294,557**

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 2019 is presented in the following table:

In thousands of Georgian Lari	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	19,357	-	-	-	19,357
Net investment in finance lease	19,747	15,743	70,025	151,516	257,031
Derivative financial Instruments	35,832	8,603	15,364	-	59,799
Other financial assets	7,487	125	1,746	753	10,111
Total financial assets	**82,423**	**24,471**	**87,135**	**152,269**	**346,298**
Financial Liabilities					
Loans from banks and financial institutions	1,909	31,815	141,616	66,856	242,196
Debt securities in issue	-	-	-	-	-
Advances received from customers	16,591	1,312	933	-	18,836
Subordinated loan	103	-	-	31,124	31,227
Derivative financial Instruments	35,589	8,603	16,341	-	60,533
Other financial liabilities	7,778	119	643	287	8,827
Total financial liabilities	**61,970**	**41,849**	**159,533**	**98,267**	**361,619**
Effect of economic hedges	24,474	4,939	1,204	-	**30,617**
Liquidity gap	**44,927**	**(12,439)**	**(71,194)**	**54,002**	**15,296**
Cumulative liquidity gap	**44,927**	**32,488**	**(38,706)**	**15,296**	

26 Financial Risk Management (Continued)

The expected liquidity gap as at 31 December 2018 as reclassified, is presented in the following table:

In thousands of Georgian Lari	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
Net investment in finance lease	18,544	12,728	56,392	116,043	203,707
Other financial assets	5,123	131	868	1,204	7,326
Total financial assets	**42,306**	**12,859**	**57,260**	**117,247**	**229,672**
Financial Liabilities					
Loans from banks and financial institutions	1,352	9,965	96,541	96,511	204,369
Debt securities in issue	64	-	8,030	-	8,094
Advances received from customers	16,158	1,290	278	-	17,726
Subordinated loan	34	-	-	29,213	29,247
Derivative financial Instruments	48	-	-	-	48
Other financial liabilities	2,772	1,728	139	-	4,639
Total financial liabilities	**20,428**	**12,983**	**104,988**	**125,724**	**264,123**
Effect of economic hedges	33,182	1,652	1,234	-	**36,068**
Liquidity gap	**55,060**	**1,528**	**(46,494)**	**(8,477)**	**1,617**
Cumulative liquidity gap	**55,060**	**56,588**	**10,094**	**1,617**	

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.

27 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. The amount of capital that the Company managed as of 31 December 2019 was GEL 70,272 thousand (2018: 53,963 thousand).

28 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.

	2019		**2018**	
In thousands of Georgian Lari	**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 (+)	30,928	-	3,642	-
- GEL receivable on settlement (+)	3,195	(56,681)	4,599	-
- EUR payable on settlement (-)	25,676	(3,852)	-	(8,289)
Fair value of foreign exchange forwards and swaps	**59,799**	**(60,533)**	**8,241**	**(8,289)**
Net fair value of foreign exchange forwards and swaps		**(734)**		**(48)**

29 Fair Value Disclosures

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 observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

29 Fair Value Disclosure (Continued)

In thousands of Georgian Lari	31 December 2019				31 December 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at Fair Value								
Non-Financial Assets								
Investment property	-	2,210	-	**2,210**	-	2,100	-	**2,100**
Total Assets Recurring Fair Value Measurements		**2,210**	**-**	**2,210**	**-**	**2,100**	**-**	**2,100**
Liabilities Carried at Fair Value								
Financial Liabilities								
Derivative financial instruments	-	734	-	**734**	-	48	-	**48**
Total Liabilities Recurring Fair Value Measurements		**734**	**-**	**734**	**-**	**48**	**-**	**48**

The description of the valuation technique and the description of inputs used in the fair value measurement for level 2 measurements:

In thousands of Georgian Lari	2019	2018	Valuation technique	Inputs used
Assets at Fair Value **Financial Assets** **Non-Financial Assets**				
Investment property	2,210	2,100	Market approach based on the highest and best use analysis of the property	Price per square meter
Total Assets Recurring Fair Value Measurements	**2,210**	**2,100**		
Liabilities Carried at Fair Value **Financial Liabilities**				
Derivative financial instruments	734	48	Forward pricing using present value calculations	Market interest rates, official exchange rate
Total Liabilities Recurring Fair Value Measurements	**734**	**48**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2019 (2018: none).

Fair value measurement analysis by level in the fair value hierarchy is disclosed in Note 3.

29 Fair Value Disclosure (Continued)

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

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

	31.Dec.19				31.Dec.18			
In thousands of Georgian Lari	**Level 1**	**Level 2**	**Level 3**	**Carry-ing value**	**Level 1**	**Level 2**	**Level 3**	**Carry-ing value**
Financial assets								
Cash and cash equivalents	19,357	-	-	19,357	18,639	-	-	18,639
Due from banks	-	-	-	-	-	-	-	-
Net investments in finance lease	-	-	265,515	257,031	-	-	206,665	203,707
Other financial assets	-	-	9,562	10,111	-	-	4,609	7,326
Total assets	**19,357**	**-**	**275,077**	**286,499**	**18,639**	**-**	**211,274**	**229,672**
Financial liabilities								
Loans from banks and financial institutions	-	240,429	-	242,196	-	203,016	-	204,369
Debt securities in issue	-	-	-	-	-	8,030	-	8,094
Advances received from customers	-	15,050	-	15,050	-	9,522	-	9,522
Subordinated loan	-	31,124	-	31,227	-	29,213	-	29,247
Other financial liabilities	-	8,827	-	8,827	-	4,639	-	4,639
Total liabilities	**-**	**295,430**	**-**	**297,300**	**-**	**254,420**	**-**	**255,871**

Cash and cash equivalents are carried at amortised cost, which equals current fair value. Net investment in finance lease and other financial assets are stated net of provisions for impairment. Loans from banks and subordinated loans are measured at amortised cost. 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 fair values in level 2 and level 3 of the fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities. 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 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 2019 and 2018 no provision for potential tax liabilities has been recorded.

30 Contingencies and Commitments (Continued)

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:

In thousands of Georgian Lari	**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 2019 and 2018 and during the respective years the Company has complied with the covenants that were in force.

31 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. **31 Related Parties Transactions (Continued)**

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

	2019			**2018**		
In thousands of Georgian Lari	**Parent company**	**Entities under common control**	**Other related entities**	**Parent company**	**Entities under common control**	**Other related entities**
Cash and cash equivalents	16,993	-	-	17,371	-	-
Net investment in finance leases (effective interest rate 15 0%-40 0%)	-	-	373	-	-	1,300
Loans from banks and financial institutions (contractual interest rate 6%-12,5%)	73,858	-	-	45,359	-	-
Subordinated loans	2,448	-	-	2,445	-	-
Derivative financial Instruments	87	-	-	-	-	-
Other financial assets	1	95	-	-	-	-
Prepayments	-	2,667	-	-	1,766	-
Other liabilities	-	-	-	105	-	-

31 Related Party Transactions (Continued)

The income and expense items with related parties for the year ended 31 December 2019 and 2018 were as follows:

	2019			2018		
In Georgian Lari	Parent company	Entities under common control	Other related entities	Parent company	Entities under common control	Other related entities
Interest income	-	-	-	250	-	-
Income from operating leasing	1,377	-	-	745	131	-
Finance income	-	-	60	-	-	189
Other income	242	338	-	11	-	-
Interest expense	5,467	53	-	4,465	195	-
Bank and other service charge	-	-	-	59	43	-
Gain from derivative financial instruments	322	-	-	56	-	-
Other expenses	71	3,830	-	-	2,092	-

Key management compensation is presented below:

	2019		2018	
In thousands of Georgian Lari	Expenses	Accrued Liability	Expenses	Accrued Liability
Short-term benefits	940	422	1,309	599

During the year ended 31 December 2019 and 2018 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.

32 Events After Reporting Period

Bond Placement

In March 2020 TBC Leasing has successfully completed a public placement of GEL 70 mln bonds, from which initial subscription was up to GEL58.4 mln. The issued bond has a three years maturity and is denominated in local currency.

COVID 19- outbreak

COVID-19 outbreak, declared as a pandemic by the World Health Organisation, started in China and spread rapidly around the world in early 2020. COVID-19 pandemic has already caused major economic disruptions, halted international travel and resulted in country lockdowns. COVID-19 pandemic results in a decreased economic growth in Georgia, increased unemployment, depreciation of the GEL, decreased commodity and real estate prices and impaired creditworthiness of the private sector, and increases financial and non-financial risks of the Company

TBC Leasing has implemented a number of actions to protect its customers and staff members and to minimize disruption to the company's operations during the COVID-19 outbreak.

In the light of ongoing COVID-19 pandemic, the management has timely and fully adapted to the government regulations about COVID-19. The Company adjusted to new reality very quickly and in a flexible manner and maintaining the health, safety and well-being of our staff and customers as the number one priority. Until May 100% of staff was working remotely from their homes and only from June it was decided to allow front office employees to get back to office. This strategy will enable efficient servicing of clients, even in period of partial lockdown. Due to the fact that the Company was able to move to a remote work mode in a very short period of time and this happened without any complications, therefore, the remote working process has not had negative affect on the quality of work performance.

32 Event After Reporting Period (Continued)

Despite the economic conditions, created in the country due to Covid-19, the company has not faced a liquidity problem. The management believes that the Company's robust records of financial results increases its abilities to maintain strong liquidity and funding position. In case of necessity the Company can be utilized approved limit of capital injections from its parent company, during 2020 financial year. Currently the Company is not experiencing any increased need of liquidity or funding, but due to the increased uncertainty, the Company is working to attract additional funds from international financial institutions in order to have readily available funds in case liquidity needs arise in the future.

Company introduced three-month grace period on payments of principal and interest for all retail, MSME and corporate customers. Despite above mentioned change, as part of the stress testing exercise, company has analysed multiple scenarios to ensure that the Company has sufficient liquidity.

COVID-19 is certainly a challenge for the world as well as for our Company. But the shock is predominantly temporary, rather than permanent, so management believes that the business should be back to the normal growth rate in a reasonable time-frame. Despite the facts that market demands on our products have not decreased significantly, the management decided to reduce disbursements during the lockdown period, in order to maintain liquidity position. The Company plans to reengage in promotional activities and embark on 2020 growth plans starting from July 2020. Management expects that planned growth will only be impacted partially by the negative economic consequences. It should be mentioned that the Company does not expect any breaches of lender covenants in the light of COVID-19 consequences.

The Managements have not identified any material uncertainties that could threaten the going concern assumption, but it is early to assess the full impact of the virus on the company's financial position.