JSC Georgia Healthcare Group

Consolidated Financial Statements

For the year ended 31 December 2020

The accompanying notes to the consolidated financial statements are an integral part of these statements.

SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER

(Thousands of Georgian Lari unless otherwise stated)

CONTENTS

INDEPENDENT AUDITORS' REPORT

Consolidated Statement of Financial Position 1
Consolidated Statement of Comprehensive Income 2
Consolidated Statement of Changes in Equity 3
Consolidated Statement of Cash Flows 4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Background 5
2. Basis of Preparation 6
3. Summary of Significant Accounting Policies 7
4. Significant Accounting Judgments and Estimates 19
5. Segment Information 20
6. Cash and Cash Equivalents 23
7. Amounts Due from Credit Institutions 23
8. Insurance Premiums Receivable 23
9. Receivables from Healthcare Services 23
10. Property and Equipment 24
11. Right of Use Assets and Lease Liabilities 25
12. Goodwill and Other Intangible Assets 25
13. Taxation 26
14. Inventory 26
15. Insurance Contract Liabilities 26
16. Borrowings 27
17. Accounts Payable 27
18. Debt securities issued 27
19. Payables for Share Acquisitions 27
20. Commitments and Contingencies 28
21. Equity 28
22. Healthcare Services and Pharmacy and Distribution Revenue 29
23. Net Insurance Premiums Earned 29
24. Cost of Healthcare Services and Pharmaceuticals 30
25. Cost of Insurance Services and Agents' Commissions 30
26. Other Operating Income 30
27. Salaries and Other Employee Benefits 30
28. General and Administrative Expenses 31
29. Impairment of Healthcare Services, Sales of Pharmaceuticals, Insurance Premiums and Other Receivables 31
30. Other Operating Expense 31
31. Interest Income and Interest Expense 32
32. Loss from Sale of Subsidiary and Net Non-Recurring Expense 32
33. Share-Based Compensation 33
34. Capital Management 33
35. Risk Management 34
36. Fair Value Measurements 41
37. Related Party Transactions 43
38. Events after Reporting Period 44

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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

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

Independent auditor's report

To the shareholder of Georgia Healthcare Group JSC

Opinion

We have audited the consolidated financial statements of Georgia Healthcare Group JSC and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs).
Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Group's 2020 Management report

Other information consists of the information included in the Group's 2020 Management Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the consolidated financial statements

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

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

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

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

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

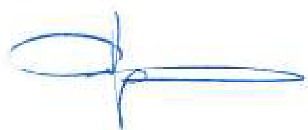
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate

Building a better working world

to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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.



Alexey Loza
On behalf of EY LLC
Tbilisi, Georgia
22 April 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

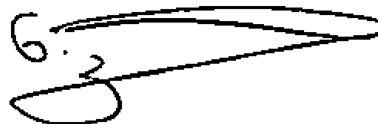
(Thousands of Georgian Lari)

	Notes	2020	2019
Assets			
Cash and cash equivalents	6	104,390	18,380
Amounts due from credit institutions	7	51,281	13,588
Insurance premiums receivable	8	21,191	26,892
Receivables from healthcare services	9	95,884	130,212
Receivables from sales of pharmaceuticals		25,042	17,508
Inventory	14	202,219	174,462
Prepayments		14,597	13,245
Current income tax assets		271	757
Investment in associate		–	3,481
Property and equipment	10	563,636	671,658
Right of use assets	11	81,597	84,115
Goodwill and other intangible assets	12	158,725	162,247
Other assets		50,236	45,276
Total assets		1,369,069	1,361,821
Liabilities			
Accruals for employee compensation		28,169	27,376
Insurance contract liabilities	15	24,117	25,489
Accounts payable	17	174,849	128,517
Current income tax liabilities		642	973
Lease liabilities	11	97,606	90,791
Payables for share acquisitions	19	111,993	96,449
Borrowings	16	292,812	269,434
Debt securities issued	18	94,400	94,151
Other liabilities		20,008	20,065
Total liabilities		844,596	753,245
Equity			
Share capital	21	113,951	113,951
Additional paid-in capital	21	268,632	262,770
Other reserves	21	(63,636)	(47,674)
Retained earnings		178,530	208,154
Total equity attributable to shareholders of the Company		497,477	537,201
Non-controlling interests		26,996	71,375
Total equity		524,473	608,576
Total equity and liabilities		1,369,069	1,361,821

The financial statements on pages 1 to 44 were approved by the Board of Directors of JSC Georgia Healthcare Group on 22 April 2021 and signed on its behalf by:

Nikoloz Gamkrelidze Chief Executive Officer

22 April 2021



Company registration number: 405098399

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER

(Thousands of Georgian Lari)

	Notes	*2020*	*2020 excl. GNco*	*2019*	*2019 excl. GNco*
Healthcare services revenue	22	299,516	274,516	315,042	272,539
Revenue from pharma	22	629,628	629,628	570,836	570,836
Net insurance premiums earned	23	68,885	68,885	74,680	74,680
Revenue		**998,029**	**973,029**	**960,558**	**918,055**
Cost of healthcare services	24	(191,896)	(176,141)	(178,239)	(151,103)
Cost of sales of pharmaceuticals	24	(455,626)	(455,626)	(424,814)	(424,814)
Cost of insurance services and agents' commissions	25	(42,997)	(42,997)	(49,940)	(49,940)
Costs of services		**(690,519)**	**(674,764)**	**(652,993)**	**(625,857)**
Gross profit		**307,510**	**298,265**	**307,565**	**292,198**
Other operating income	26	14,393	13,856	18,930	18,371
Salaries and other employee benefits	27	(94,334)	(92,573)	(92,247)	(89,555)
General and administrative expenses	28	(40,831)	(40,089)	(39,328)	(37,994)
Impairment of healthcare services, insurance premiums and other receivables	29	(6,061)	(5,999)	(4,322)	(4,188)
Other operating expenses	30	(6,619)	(4,742)	(10,117)	(7,417)
		(147,845)	**(143,403)**	**(146,014)**	**(139,154)**
EBITDA		**174,058**	**168,718**	**180,481**	**171,415**
Depreciation and amortisation	10-12	(58,167)	(54,138)	(54,972)	(49,555)
Interest income	31	8,870	8,824	2,236	2,204
Interest expense	11, 31	(51,371)	(50,752)	(48,034)	(46,705)
Net losses from foreign currencies and cost of currency derivatives		(25,955)	(24,816)	(9,431)	(9,083)
Loss from disposal of GNco.	32	(26,140)	–	–	–
Net non-recurring expense	32	(14,305)	(14,305)	(1,053)	(1,053)
Profit before income tax expense		**6,990**	**33,531**	**69,227**	**67,223**
Income tax expense	13	(3,025)	(3,025)	(1,586)	(1,586)
Profit for the year		**3,965**	**30,506**	**67,641**	**65,637**
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods: Exchange differences on translation of foreign operations		(12)	(12)	(59)	(59)
Total comprehensive income for the year		**3,953**	**30,494**	**67,582**	**65,578**
Profit for the year attributable to:					
- shareholders of the Company		(11,023)	15,317	46,240	45,238
- non-controlling interests		14,988	15,189	21,401	20,399
Total comprehensive income for the year attributable to:					
- shareholders of the Company		(11,035)	15,305	46,181	45,179
- non-controlling interests		14,988	15,189	21,401	20,399

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER

(Thousands of Georgian Lari unless otherwise stated)

	Attributable to the shareholders of the Company						
	Share capital	*Additional paid-in capital*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interest*	*Total equity*
31 December 2019	**113,951**	**262,770**	**(47,674)**	**208,154**	**537,201**	**71,375**	**608,576**
Profit for the year	–	–	–	(11,023)	(11,023)	14,988	3,965
Other comprehensive income	–	–	(12)	–	(12)	–	(12)
Total comprehensive income	**–**	**–**	**(12)**	**(11,023)**	**(11,035)**	**14,988**	**3,953**
Acquisition of additional interest in existing subsidiaries (Note 21, 36)	–	–	(15,950)	–	(15,950)	(3,452)	(19,402)
Disposal of a subsidiary (Note 1)	–	–	–	–	–	(46,350)	(46,350)
Dividends declared to shareholders of the Company (Note 21)	–	–	–	(18,601)	(18,601)	–	(18,601)
Dividends declared to non-controlling shareholders by subsidiary	–	–	–	–	–	(9,565)	(9,565)
Purchase of treasury shares	–	(8,941)	–	–	(8,941)	–	(8,941)
Share-based compensation	–	14,803	–	–	14,803	–	14,803
31 December 2020	**113,951**	**268,632**	**(63,636)**	**178,530**	**497,477**	**26,996**	**524,473**

	Attributable to the shareholders of the Company						
	Share capital	*Additional paid-in capital*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interest*	*Total equity*
31 December 2018	**113,951**	**259,020**	**(48,979)**	**176,114**	**500,106**	**66,084**	**566,190**
Profit for the year	–	–	–	46,240	46,240	21,401	67,641
Other comprehensive income	–	–	(59)	–	(59)	–	(59)
Total comprehensive income	**–**	**–**	**(59)**	**46,240**	**46,181**	**21,401**	**67,582**
Acquisition of additional interest in existing subsidiaries (Note 21, 36)	–	–	1,364	–	1,364	(9,018)	(7,654)
Acquisition of additional interest in existing subsidiaries by non-controlling shareholders (Note 21)	–	–	–	–	-	171	171
Dilution of interests in subsidiaries (Note 21)	–	–	–	–	-	1,035	1,035
Dividends declared to shareholders of the Company (Note 21)	–	–	–	(14,200)	(14,200)	-	(14,200)
Dividends declared to non-controlling shareholders by subsidiary	–	–	–	–	-	(8,298)	(8,298)
Purchase of treasury shares	–	(3,228)	–	–	(3,228)	–	(3,228)
Share-based compensation	–	6,978	–	–	6,978	–	6,978
31 December 2019	**113,951**	**262,770**	**(47,674)**	**208,154**	**537,201**	**71,375**	**608,576**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER

(Thousands of Georgian Lari unless otherwise stated)

	Notes	*2020*	*2020 excl. GNco*	*2019*	*2019 excl. GNco*
Profit before income tax expense:		**6,990**	**33,531**	69,227	67,223
Depreciation and amortisation		58,167	54,138	54,972	49,555
Interest income		(8,870)	(8,824)	(2,236)	(2,204)
Interest expense		51,371	50,752	48,034	46,705
Net losses from foreign currencies		15,643	14,504	8,035	7,687
Share-based compensation expense		2,606	2,606	5,951	5,951
Impairment of Healthcare Services, Sales of Pharmaceuticals, Insurance Premiums and Other Receivables		6,061	5,999	4,322	4,322
Non-recurring expense: loss from sale of subsidiary		26,140	–	–	–
Decrease/(Increase) in receivables from healthcare services, net of allowance for impairment		16,161	17,849	(23,371)	(28,602)
(Increase)/Decrease in receivables from sales of pharmaceuticals		(7,534)	(7,534)	2,932	2,932
Increase in insurance premiums receivable		5,701	5,701	(3,249)	(3,249)
Increase in inventories		(32,832)	(33,711)	(28,298)	(28,334)
Increase in accounts payable (excluding payable for purchase of property and equipment)		52,525	51,858	23,804	23,697
(Decrease)/Increase in insurance contract liabilities		(6,015)	(6,015)	2,945	2,945
Increase in accruals for employee compensation		3,776	3,890	813	837
Changes in other assets and liabilities		6,490	6,648	(6,908)	3,526
Net cash flows from operating activities before income tax		**196,380**	**191,392**	156,973	152,991
Income tax paid		(2,509)	(2,509)	(429)	(429)
Net cash flows from operating activities		**193,871**	**188,883**	**156,544**	**152,562**
Cash flows used in investing activities					
Acquisition of subsidiaries, net of cash acquired		(5,925)	(5,925)	(5,224)	(5,224)
Proceeds from sale of subsidiary	1, 33	32,818	32,818	–	–
Acquisition of additional interest in existing subsidiaries		–	–	(877)	(877)
Purchase of property and equipment		(21,439)	(19,991)	(29,809)	(27,569)
Purchase of intangible assets		(10,352)	(10,352)	(12,169)	(12,169)
Loans acquired		(662)	(662)	(1,172)	(1,172)
Interest income received		4,921	4,888	601	601
Investment in derivative financial instruments		–	–	(441)	(441)
Withdrawals and redemptions of amounts due from credit institutions		15,520	15,520	9,858	9,858
Placements of amounts due from credit institutions		(53,212)	(53,212)	(12,245)	(12,245)
Proceeds from sale of property and equipment		4,506	8,524	4,075	4,043
Net cash used in investing activities		**(33,825)**	**(28,392)**	**(47,403)**	**(45,195)**
Cash flows from financing activities					
Proceeds from debt securities issued		–	–	32,250	32,250
Repurchase of debt securities issued		–	–	(30,300)	(30,300)
Proceeds from borrowings	34	127,637	127,637	113,350	113,350
Repayment of borrowings	34	(109,889)	(108,927)	(150,072)	(148,335)
Lease liabilities paid, principal		(17,914)	(17,914)	(15,651)	(15,651)
Lease liabilities paid, interest		(6,347)	(6,347)	(5,669)	(5,669)
Purchase of treasury shares		(8,941)	(8,941)	(3,230)	(3,230)
Dividends paid to shareholders of the Group		(10,476)	(10,476)	(14,200)	(14,200)
Dividends paid to non-controlling interests		(11,998)	(11,998)	(8,561)	(8,561)
Interest expense paid		(40,012)	(39,560)	(39,541)	(39,067)
Net cash flows from financing activities		**(77,940)**	**(76,526)**	**(121,624)**	**(119,413)**
Effect of exchange rates changes on cash and cash equivalents		3,904	3,904	(2,249)	(2,249)
Net decrease in cash and cash equivalents		**86,010**	**87,869**	**(14,732)**	**(14,295)**
Cash and cash equivalents, beginning	6	**18,380**	**16,521**	**33,112**	**30,816**
Cash and cash equivalents, end	6	**104,390**	**104,390**	**18,380**	**16,521**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

1. Background

As at 31 December 2020, JSC Georgia Capital owned 100% of shares in JSC Georgia Healthcare Group ("the Company"). The ultimate parent of the Company and its subsidiaries (together referred to as "GHG" or "the Group") was Georgia Capital PLC ("GCAP"), incorporated in London, England. GCAP's registered legal address is 84 Brook Street, London, W1K 5EH, England. GCAP registration number is 10852406. The legal address of the Company is 142, Akaki Beliashvili Street, Tbilisi, Georgia. The Company registration number is 09752452.

On 8 July 2020, following an application by GCAP, the Financial Conduct Authority has cancelled the listing of Georgia Healthcare Group PLC, the parent company, shares on the premium listing segment of the Official List and the London Stock Exchange and has cancelled the trading of Georgia Healthcare Group PLC shares on the London Stock Exchange's main market for listed securities. Share exchange ratio set at 0.192 shares in GCAP for every 1 share in GHG. As a result, Georgia Healthcare Group PLC became a wholly owned subsidiary of GCAP. In November 2020, following the events of the delisting, Georgia Healthcare Group PLC changed its legal status to GHG LLC and GCAP became direct shareholder of JSC Georgia Healthcare Group instead of Georgia Healthcare Group PLC.

The Group's healthcare services businesses provide medical services to inpatient and outpatient customers through a network of hospitals and clinics throughout Georgia. Its medical insurance business offers a wide range of medical insurance products, including personal accident, term life insurance products bundled with medical insurance and travel insurance policies to corporate and retail clients. The Group's pharmacy and distribution subsidiary offers a wide range of medicines as well as para-pharmacy products.

In August 2020, GHG signed a Sales and Purchase Agreement to sell 40% equity interest in GNco to Tbilisi State Medical University. Total cash consideration for the sale is USD 12 million (GEL 36.8 million). GHG plans to sell the remaining 10% equity interest in 2021. GNco had a 9.1% and 5.2% share in total assets and EBITDA, respectively, in 2019. Loss on disposal as a result of the transaction amounted to GEL 26,140, derecognised goodwill amounted to GEL 11,948. Management of the Group decided to present Statement of comprehensive income and Statement of Cash Flows for 2020 and 2019 including and excluding GNco sale effect as it better represents financial performance of GHG during the reporting period.

The Group included the following subsidiaries and associates incorporated in Georgia:

	Ownership/Voting					
	31-Dec-2020	*31-Dec-2019*	*Industry*	*Date of incorporation*	*Date of acquisition*	*Legal address*
Subsidiaries						
JSC GEPHA	67%	67%	Pharmacy and Distribution	19-Oct-95	4-May-16	#142, A. Beliashvili str, Tbilisi
LLC ABC Pharmalogistics	67%	67%	Pharmacy and Distribution	24-Feb-04	6-Jan-17	Peikrebi str. 14a, Tbilisi, Georgia
LLC ABC Pharmacia (Armenia)	67%	67%	Pharmacy and Distribution	28-Dec-13	6-Jan-17	Kievyan Str. 2/8, Erevan, Armenia
JSC Insurance Company Imedi L	100%	100%	Insurance	11-Aug-98	31-Jul-14	Anna Politkovskaia str. 9, Tbilisi, Georgia
JSC Evex Hospitals	100%	100%	Healthcare	1-Aug-14	1-Aug-14	#142, A. Beliashvili str, Tbilisi
GNCo	10%	50%	Healthcare	4-Jun-01	5-Aug-15	Chavchavadze ave. 16, Tbilisi, Georgia
LLC Nefrology Development Clinic Centre	8%	40%	Healthcare	28-Sep-10	5-Aug-15	Tsinandali str. 9, Tbilisi, Georgia
High Technology Medical Centre, University Clinic	10%	50%	Healthcare	16-Apr-99	5-Aug-15	Tsinandali str. 9, Tbilisi, Georgia
LLC Regional Hospital	99.8%	99.8%	Healthcare	12-Jan-12	30-Jun-15	Kavtaradze str. 23, Tbilisi, Georgia
LLC Evex-Logistics	100%	100%	Healthcare	13-Feb-15	Not Applicable	#142, A. Beliashvili str, Tbilisi
JSC Kutaisi County Treatment and Diagnostic Centre for Mothers and Children	67%	67%	Healthcare	5-May-03	29-Nov-11	Djavakhishvili str. 85, Kutaisi, Georgia
LLC Academician Z. Tskhakaia National Centre of Intervention Medicine of Western Georgia	67%	67%	Healthcare	15-Oct-04	29-Nov-11	A Djavakhishvili str. 83A, Kutaisi, Georgia
NCLE Evex Learning Centre	100%	100%	Other	20-Dec-13	20-Dec-13	Javakhishvili str. 83a, Tbilisi, Georgia
LLC Emergency Service	85%	85%	Healthcare	18-Jun-13	1-Mar-15	U. Chkeidze str. 10, Tbilisi, Georgia
JSC Patgeo	100%	100%	Healthcare	13-Jan-10	1-Aug-16	Mukhiani, II mcr. District, Building 22, 1a, Tbilisi, Georgia
JSC Pediatry	76%	76%	Healthcare	5-Sep-03	6-Jul-16	U. Chkeidze str. 10, Tbilisi, Georgia
LLC New Clinic	100%	100%	Healthcare	3-Jan-17	20-Jul-17	#142, A. Beliashvili str, Tbilisi
JSC Evex Clinics	100%	100%	Healthcare	1-Apr-19	Not Applicable	#142, A. Beliashvili str, Tbilisi
LLC Aliance Med	100%	100%	Healthcare	7-Jul-15	20-Jul-17	#142, A. Beliashvili str, Tbilisi
JSC Polyclinic Vere	97.8%	97.8%	Healthcare	22-Nov-13	25-Dec-17	Kiacheli str. 18-20, Tbilisis Georgia
LLC New Dent	75%	75%	Healthcare	24-Dec-18	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Tskaltubo Regional Hospital	67%	67%	Healthcare	29-Sep-99	29-Nov-11	Eristavi str. 16, Tskhaltubo, Georgia
JSC Mega-Lab	92%	92%	Healthcare	6-Jun-17	Not Applicable	Petre Kavtaradze str. 23, Tbilisi Georgia
JSC Vabaco	67%	67%	Software development	9-Sep-13	28-Sep-18	Bochorishvili str. 37, Tbilisi, Georgia
Associates						
LLC 5th Clinical Hospital	-	35%	Healthcare	16-Sep-99	4-May-16	Temka, XI mcr. Block 1, N 1/47, Tbilisi, Georgia
NPO Healthcare Association	25%	25%	Healthcare	25-Mar-16	Not Applicable	Vazha-Pshavela Ave. 27b, Tbilisi, Georgia
NPO Georgian Medical Tourism Council	28.6%	28.6%	Healthcare	16-May-19	Not Applicable	I-II floor, house N10, N 13, b. N1 almond Gardens Street, tskneti, Vake district, Tbilisi

1. Background (continued)

COVID-19 impact

Following the COVID-19 outbreak in Georgia in March 2020, the Group implemented a cash accumulation and preservation strategy throughout 2020 (Note 2). Due to the increased spread of the COVID-19 virus, the Group has mobilised ten healthcare facilities, four clinics and six hospitals to receive COVID patients only, and ten healthcare facilities as hybrid ones, focused on both COVID and non-COVID patients. The Government of Georgia fully reimburses costs associated with COVID-19 treatments and pays a fixed fee amount per each occupied bed for COVID patients. A number of initiatives were put in place, including properly trained medical teams, isolated wards, and fully equipped intensive and critical care units. Infection prevention and emergency programmes and guidelines were established across the Group. In April 2020, Group's diagnostics business also started testing patients for COVID-19.

Georgia has, so far, managed to effectively deal with the COVID-19 pandemic. The Georgian Government has taken significant actions at the early stage of COVID-19 outbreak.

COVID-19-related lockdown and restrictions have a major impact on the Hospitals, Clinics and Diagnostics segments, leading to a reduction in patient footfall at healthcare facilities for planned treatment in the first lockdown lasting through April-May 2020. Though, in the second half of 2020, the trend started to reverse despite the second wave from September 2020, the utilisation levels were up at GHG's non-COVID hospitals and number of admissions at clinics also increased. The diagnostics segment, which apart from regular diagnostics services, is also engaged in COVID-19 testing, has shown significant growth in terms of EBITDA this year, increasing from GEL 176 in 2019 up to GEL 1,792 in 2020.

Material partly owned subsidiaries

The following subsidiary has material non-controlling interest:

		2020		*2019*	
	Ownership rights held by non-controlling interests, %	***Profit allocated to non-controlling interests during the year***	***Dividends paid to non-controlling interests during the year***	***Profit allocated to non-controlling interests during the year***	***Dividends paid to non-controlling interests during the year***
JSC GEPHA	33	13,120	11,998	16,343	8,415

JSC GEPHA's accumulated non-controlling interest balance is zero due to the put option (Note 21).

The summarised financial information of these subsidiaries is presented below. This information is based on amounts before inter-company eliminations.

JSC GEPHA	***2020***	***2019***
Total assets	464,644	396,078
Total liabilities	298,048	240,241
Equity	166,596	155,837

JSC GEPHA	***2020***	***2019***
Revenue	679,437	614,675
Total comprehensive income for the year	43,173	51,005
Net cash flows from operating activities	88,050	52,897
Net cash flows from investing activities	(20,681)	(13,095)
Net cash used in financing activities	(58,164)	(48,433)
Net (decrease)/increase in cash and cash equivalents	**9,205**	**(8,631)**

2. Basis of Preparation

Basis of preparation

The Company's and Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRIC") interpretations endorsed by the European Union ("EU"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties and derivative financial instruments that have been measured at fair value.

These consolidated financial statements have been presented in thousands of Georgian Lari (GEL), except otherwise stated.

2. Basis of Preparation (continued)

Going concern

GHG's Board of Directors has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future for a period of at least 12 months from the approval of the consolidated financial statements, taking into account the impact of the COVID-19 pandemic and considered any potential concerns with respect to the liquidity and recoverability of the Group's assets as set out in the financial statements.

As a response to the COVID-19 uncertainties, the Group has developed a significant Group-wide action plan to address the outside demand, our customers and patients' needs, as well as to ensure the performance and well-being of our employees at an organisational level. GHG's assets are concentrated across defensive countercyclical sectors: the healthcare and pharmacy distribution businesses. Furthermore, management of GHG is focused on minimizing capital allocations, applying operating expense optimization plans and preserving cash which represents the basis for going concern conclusion. As at 31 December 2020, GHG owns cash and cash equivalents in the amount of GEL 104,390 and amounts due from credit institutions in the amount of GEL 51,281 (Note 6 and Note 7), which are considered to be highly liquid, as all of them represents listed debt instruments on international and local markets.

3. Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of GHG and its subsidiaries as at 31 December 2020. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in other operating expenses.

3. Summary of Significant Accounting Policies (continued)

Basis of consolidation (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9, is measured at fair value with changes in fair value recognised in profit or loss. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and amounts due from credit institutions that mature within three months from the date of origination, that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and are free from contractual encumbrances.

Receivables from healthcare services; receivables from sales of pharmaceuticals

Receivables from healthcare services and receivables from sales of pharmaceuticals are recognised initially at the transaction price deemed to be fair value at origination date. They are subsequently measured at amortised cost using the effective interest method, less any provision for impairment. The carrying value of healthcare receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated profit or loss. Receivables from the state are due within 30 working days upon approval of invoices. Invoice review and approval process takes up to 60 working days according to Georgian legislation. Payment terms for parties other than the state are negotiated individually and range between 30 to 180 calendar days.

Financial assets

Financial assets in the scope of IFRS 9 are classified either as measured at fair value or measured at amortised cost, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

The classification depends on the purpose for which the investments were acquired or originated.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. These investments are initially recognised at cost, which is the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

As part of its risk management, the Group uses foreign exchange option and forward contracts to manage exposures resulting from changes in foreign currency exchange rates. Such financial instruments are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from the derivative contracts are included in the consolidated profit or loss in net gains/ (losses) from foreign currencies.

Allowances for impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the impairment loss is recognised in the consolidated profit or loss.

3. Summary of Significant Accounting Policies (continued)

Allowances for impairment of financial assets (continued)

Carried at amortised cost

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated profit or loss.

Derecognition of financial instruments

Financial assets

A financial asset (or, if applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the following conditions are met:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its right to receive cash flows from the asset, or retained the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third-party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset that is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Borrowings

A borrowing is derecognised when the obligation under the liability is discharged or cancelled or expires and if its terms are substantially modified.

Offsetting

Financial assets and liabilities are offset, and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expense will not be offset in profit or loss unless required or permitted by any accounting standard or interpretation. The Group has not offset any of its assets and liabilities or income and expenses.

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance premiums receivables

Insurance premiums receivable are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated profit or loss.

3. Summary of Significant Accounting Policies (continued)

Insurance contracts (continued)

Insurance contract liabilities

The unearned premium reserve ("UPR") is recognised when contracts are entered into and premiums are charged and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract. At each reporting date the carrying amount of UPR is calculated on active policies based on the insurance period and time until the expiration date of each insurance policy.

The Group reviews its unexpired risk based on the historical performance of separate business lines to determine the overall change in claims reported but not settled ("RBNS") and claims incurred but not reported yet ("IBNR"). The change of UPR, RBNS and IBNR are recognised in the consolidated profit or loss by setting up a provision for premium deficiency.

Deferred acquisition costs

Deferred acquisition costs ("DAC") are capitalised costs related to the issuance of insurance policies. They consist of commissions paid to agents, brokers and some employees. They are amortised on a straight-line basis over the life of the contract.

Fair value measurement

At each reporting date, the Group revalues its derivative financial instruments. Fair values of financial instruments measured at amortised cost are disclosed in Note 36.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

Property and equipment

As at 31 December 2020, property and equipment is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. The carrying values of property and equipment classes carried at cost are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognised in the consolidated profit or loss as other operating expense. Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office buildings	100
Hospitals and clinics	100
Leasehold improvements	10
Furniture and fixtures	5-10
Medical equipment	5-10
Computers	5
Motor vehicles	5

The asset's residual value and useful life are reviewed, and adjusted as appropriate, at each financial year end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses unless they qualify for capitalisation. An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated profit or loss in the period the asset is derecognised.

An asset under construction comprises costs directly related to construction of property and equipment including an appropriate allocation of directly attributable variable and fixed overheads that are required to bring an asset to location and position necessary for intended use by the management. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are ready for use. Leasehold improvements are depreciated over the shorter of ten years or the life of the related leased asset. The asset's residual value and useful life are reviewed, and adjusted as appropriate, at each financial year end.

3. Summary of Significant Accounting Policies (continued)

Hedge accounting

The Group has adopted fair value hedge accounting in accordance with IFRS 9 for foreign exchange component of two of its fixed assets. Due to a strong correlation between real estate prices in Lari terms and US$ – GEL exchange rates published by the National Bank of Georgia, holding other factors constant, we designated US$ denominated borrowings as a hedging instrument and the foreign exchange component of the fixed asset price change as the hedged item. The Group continues to assess hedge effectiveness on a quarterly basis.

If hedge effectiveness conditions will hold and the hedge is found to be effective any increase (decrease) in the value of hedged real estate caused by changes in US$ exchange rate will be offset by an equivalent increase (decrease) of US$ denominated borrowing. If the hedge is found to be partially ineffective, to the extent these amounts differ, a net amount is recognised in profit or loss, in net (losses)/gains from foreign currencies. The recognition of the latter difference is commonly referred to as the measurement of hedge ineffectiveness. As at 31 December 2020, fair value of financial instruments designated as hedging instruments equalled GEL 19,348 (2019: GEL 16,934).

Inventory

Inventory comprises medical supplies and non-medical supplies and is valued at the lower of cost and net realisable value. The cost of inventory is determined on a weighted average basis in the healthcare services segment and first in first out basis (FIFO) in the pharma segment and includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition.

Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated profit or loss when the borrowings are derecognised as well as through the amortisation process.

Taxation

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

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

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

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives of such assets of between four to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortisation periods for intangible assets with finite useful lives are reviewed at least at each financial year end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

3. Summary of Significant Accounting Policies (continued)

Provisions and contingent liabilities

Provisions are recognised when the Group 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 amount of obligation can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as an asset but only when it is virtually certain that it will be received.

Share-based compensation transactions

Senior executives of the Group receive share-based compensation, whereby employees render services as consideration for the equity instruments of GHG. Share-based compensation plans announced by GHG represent equity-settled transactions.

Equity

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments granted at the date of the transaction. The cost of equity-settled transactions is recognised together with the corresponding increase in additional paid-in capital, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated profit or loss charge for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed by the board to shareholders before the reporting date or proposed by the board to shareholders or declared after the reporting date but before the financial statements are authorised for issue.

Income and expense recognition

Healthcare services revenue and revenue from pharma

The Group recognises revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Healthcare services that the Group provides to the clients are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Healthcare services revenue comprises the fair value of the consideration received or receivable for providing inpatient and outpatient services and include the following components:

- Healthcare services revenue from State – The Group recognises the revenue from the individuals who are insured under the State programmes by reference to the stage of completion of the actual medical service and the agreed-upon terms between the counterparties.
- Healthcare services revenue from insurance companies – The Group recognises revenue from the individuals who are insured by various insurance companies by reference to the stage of completion of the actual medical service and agreed-upon terms between the counterparties.
- Healthcare services revenue from out-of-pocket and other – The Group recognises out-of-pocket and other revenue by reference to the stage of completion of the actual medical service and approved prices by the Group. Sales are usually in cash or by credit card. Other revenue from medical services includes revenue from municipalities and other hospitals, which the Group has contractual relationship with. Sales of services are recognised in the accounting period in which the services are rendered and are calculated according to contractual tariffs.

Revenue is presented net of corrections and rebates that occasionally arise as a result of reconciliation of detailed bills with counterparties (mostly with the State). Invoice corrections are estimated at contract inception. The estimation of potential future corrections and rebates is calculated based on statistical average correction rate which is applied to gross amount of invoices that were not approved by the state as at reporting date. The Group's gross revenue (before deducting its corrections and rebates) is based on the official invoices submitted to and formally accepted by the customers (State, insurance companies, provider clinics and individuals) and accruals for already performed but not yet billed service.

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Healthcare services revenue and revenue from pharma (continued)

Revenue from pharma comprises the fair value of the consideration received or receivable both from wholesale and retail sales and medicine exchange transactions. The pharma business sometimes sells medicine in barter transactions. The consideration received is assessed with reference to its actual wholesale price which is deemed fair value of consideration received. Customer loyalty programme points accumulated in the pharma business are treated as deferred revenue and recognised in revenues gradually as they are earned, as loyalty programme offered within the pharma business gives rise to a separate performance obligation. At reach reporting date the Group estimates portion of accumulated points that is expected to be utilised by customers based on statistical data. Those points are treated as a liability in the statement of financial position and are only recognised in revenues when points are used by customers.

Net insurance premiums earned

Insurance premiums written are recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage. Premiums written reflect business commenced during the period and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a period that relate to periods after the reporting date. Unearned premiums are computed on monthly pro rata basis.

Unearned premium reserve

The proportion of written premiums attributable to subsequent periods is deferred as unearned premium. The change in the unearned premium reserve is taken to the consolidated profit or loss in the order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

Cost of healthcare services and cost of sales of pharmaceuticals

Cost of healthcare services represents expenses directly related to the generation of revenue from healthcare services rendered, including but not limited to salaries and benefits of medical personnel, materials and supplies, utilities and other direct costs. Cost of sales of pharmaceuticals represents cost of sold medicine calculated using FIFO (first in first out method).

Net claims incurred

Insurance claims incurred include all claim losses occurring during the period, whether reported or not, including the related handling costs and other recoveries and any adjustments to claims outstanding from previous periods. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims, such as salaries of general practitioners. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Interest income

For all financial assets measured at amortised cost, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the consolidated profit or loss.

EBITDA

The Group separately presents EBITDA on the face of statement of comprehensive income. EBITDA is defined as earnings before interest, taxes, depreciation and amortisation and is derived as the Group's Profit before income tax expense but excluding the following line items: depreciation and amortisation, interest income, interest expense, net losses from foreign currencies and net non-recurring (expense)/income.

Net non-recurring (expense)/income

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. Any type of income or expense may be non-recurring by nature. The Group defines non-recurring income or expense as income or expense triggered by or originated from an unusual economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors.

Foreign currency translation

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

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in net losses from foreign currencies in the consolidated profit or loss. The official NBG exchange rates at 31 December 2020 and 2019 were 3.2766 and 2.8677 Georgian Lari to 1 US Dollar, respectively.

Financial instruments

(a) Classification and measurement

Classification and measurement requirements of IFRS 9 have no significant impact on GHG's statement of financial position or equity on applying the classification. The Group continues measuring at amortised cost all financial assets and liabilities except for derivative financial instruments and payables for share acquisitions that are measured at fair value. These items include: cash and cash equivalents, amounts due from credit institutions, pharmacy and distribution and healthcare receivables, loans issued/acquired, borrowings, debt securities issued and accounts payable.

Loans as well as healthcare and pharma receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis. The Group applies the simplified approach and records lifetime expected losses on all receivables, loans and contract assets. The primary impact of adoption of the new impairment methodology was on the following two accounts: allowance on receivables from healthcare services and allowance on receivables from sales of pharmaceuticals.

Cash and cash equivalents and Amounts due from credit institutions

Due to the short-term and highly liquid nature of these financial assets, the Group has assessed corresponding credit losses to be immaterial. Therefore, no impairment was recognised for Cash and cash equivalents and Amounts due from credit institutions under IFRS 9.

Healthcare and pharma receivables

In applying the simplified impairment approach under IFRS 9, the Group implemented four different assessment methods based on type of receivables:

1. Individual assessment for Receivables from government;
2. Individual assessment for all other material receivables (with a balance above GEL 250 thousand);
3. Individual assessment for Barter receivables in the pharmacy and distribution business; and
4. Collective assessment for all other receivables. Receivables with shared credit risk characteristics are combined in different portfolios for collective assessment. The Group has identified the following main types of portfolios (with a balance less than GEL 250 thousand): receivables from healthcare services (mainly receivables from individuals), receivables from sale of pharmaceuticals, rent receivables and other receivables.

Receivables from government

JSC Evex Hospitals ("Evex") and JSC Evex Clinics participate in the Georgian state insurance programme - Universal Health Care Programme ("UHC"). As a result, a significant part of receivables from healthcare services (approximately 70%) is due from the Georgian Government and municipal authorities. On the other hand, JSC GEPHA ("GEPHA") participates in UHC's tenders, supplying medicaments to different clinics. In addition, Georgian government co-pays the price of certain medicines to individuals covered by the UHC. Therefore, a considerable part of receivables from sales of pharmaceuticals (approximately 15%) are also due from the Georgian government. Receivables from government have unique credit characteristics, which are different from those of any other financial instrument currently owned by the Group. Considering this fact and materiality of corresponding balance, the Group has concluded that receivables from government should be considered for impairment on an individual basis, separately from all other financial instruments.

The Group uses credit ratings published by international agencies, such as Standard & Poor's ("S&P") or Moody's, in order to assess credit quality of state receivables. Similarly, the probabilities of default to the respective category of credit rating assigned to Georgia based on reports by the same international agencies are used as a reasonable approximation of probability of default ("PD") for receivables from government. PD for receivables from government was based on the country's risk rating. The Group will reconsider the PD rate used in the impairment calculations at each reporting date.

3. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

(b) Impairment (continued)

Individually assessed debtors

For debtors a with receivable balance above GEL 250 thousand, the Group considers each case individually and takes into account various factors and individual circumstances. This process consists of two main stages:

1) Counterparty's financial position is assessed based on: a) financial results and ratios (when available); b) average receivable overdue days to the Group; and c) any other non-financial information available to the Group, such as any news relevant to market sector in which particular debtor operates, management inquiries, etc.
2) Based on this analysis, counterparty is then categorised by the Group's management for credit risk assessment and moved to collective assessment. Each credit category is assigned with corresponding expected credit loss rate, determined based on experience, management's professional judgment and expectations for the future. Assessments are performed on a quarterly basis. Macro-adjustments are incorporated based on regression results and dependency factor on GDP growth. Financial ratios in this model are updated on an annual basis, after/if audited financial statements of the counterparty are published, while average overdue days, non-financial information and expectations for the future are updated monthly.

Barter receivables in pharmacy and distribution business

GEPHA participates in barter transactions by supplying goods and services in exchange for receiving other goods and services from the counterparty. Both receivables and payables arise as a result of these transactions, but settlement is made on a net basis as required by corresponding contracts. Therefore, in assessing barter receivables for impairment the Group takes into account only net exposure from any individual counterparty, i.e. part of receivables in excess of payables to the same counterparty. These exposures are then assessed for impairment under IFRS 9 in the same manner as described in the preceding section for individually assessed debtors.

Collective assessment

For the purposes of implementing collective impairment assessment of receivables from insurance companies and other large counterparty entities under IFRS 9, debtor portfolios are segregated into distinct risk buckets based on number of overdue days. In defining 180 days as a cut-off period for default definition, the Group considered actual payment history of insurance companies and other large counterparty entities. Overdue of three to six months was usual among creditworthy counterparties, while more than six months period marked the sign for financial trouble. The statistics were based on the Group's internal data. Five separate risk buckets were implemented as presented below:

Overdue Days	Category	Description
0-30	AA	Excellent
31-60	A	Good
61-90	B	Normal
91-180	C	Bad
181+	D	Default

As for collective impairment assessment of receivables from individuals and other small counterparties, the Group has five separate risk buckets as presented below:

Overdue Days	Category	Description
0-29	A	Good
30-59	B	Normal
60-89	C	Bad
90+	D	Default

IFRS 9 allows an entity to use a simplified "provision matrices" for calculating expected losses as a practical expedient (e.g., for receivables), consistent with the general principles for measuring expected losses. However, IFRS 9 also requires incorporating forward-looking information in the entity's impairment framework.

The Group has decided to use this option and utilise provision matrices in estimation of ECLs in case of collective assessment of impairment. As mentioned above, the Group adopted the simplified approach for receivables and directly considers life-time losses for the entire portfolio i.e. expected lifetime credit losses will be recognised for the entire portfolio regardless whether or not significant increase in credit risk occurred since initial recognition. A migration matrix was used as a base for determination of probability of defaults by categories. Exposure at default was defined as the outstanding balance of debtor exposure.

3. Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

(b) Impairment (continued)

Forward looking component

Additionally, the Group incorporated macroeconomic forward-looking information in the analysis to determine adjusted default probabilities by categories. Considering the fact that debtors in healthcare service and pharmacy and distribution businesses mainly consist of individuals or small entities from widely diverse regions from Georgia, the Group believes that country-wide economic performance measure is good fit for the purposes of expected performance evaluation of the individually small debtors from all over the country. As such, real GDP growth rate was assessed to be the best macro-economic indicator on two arguments:

1) GDP growth rate is the single most important economy performance indicator that is closely tied to actual well-being of the citizens and small entities; and

2) GDP growth rate is easily obtainable and has both, consistent historical records as well as state forecast for coming years enabling to incorporate in the expected credit loss modelling. The Group regressed GDP growth rates over the past two years on impairment rates (which is the same as Probability of Default ("PD") assuming 100% Loss Given Default ("LGD")) and found a statistically significant dependency factor.

Write-off policy

The Group writes off financial assets when it becomes aware that there is no reasonable expectation of recovery based on the pre-determined indicators. These indicators are the bankruptcy of the counterparty, court decision or more than two years of overdue period. Any receivable that has not been ruled by the court to be uncollectible, are continued to be enforced by the company regardless the number of overdue days. In accordance with Georgian legislation, due to statute of limitation, GHG is unable to enforce collection of receivables if 3 years from the date of last written reminder to the counterparty have passed. The Group writes-off financial liabilities when the statute of limitation expires. Such write-offs are recognised in other operating income.

IFRS 16 Leases

a) Right-of-use assets

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

b) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. As at transition date the Group used the followings incremental borrowings rates by currencies: US dollar: 6.0%; Euro: 4.5%; British Pounds: 5.0%; Georgian Lari: 11.0%.

c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of emergency cars (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

3. Summary of Significant Accounting Policies (continued)

IFRS 16 Leases (continued)

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

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). The Group analysed its lease contracts and established the following: all contracts, including contracts to lease drug-stores, polyclinics and office spaces, contain either monetary or economic penalties over the entire contract term. In most of the cases, in case of cancellation by the lessor there is a monetary penalty requiring it to repay the lessee all amounts initially spent on leasehold improvements. In virtually all cases, there is an economic penalty for both parties upon cancellation of a lease contract. For the lessee of a drug-store or policlinic, the economic penalty is the significant time and effort involved in finding a new location and making leasehold improvements to fit the new location to the specific needs of the drug-store or policlinic. In case of office space, the economic penalty to the lessee is the significant time, effort and cost related to relocation of an office and its infrastructure. For the lessor, the economic penalty is forgoing a stable relationship with creditworthy lessee and potentially lost income during a vacancy period in which a new tenant is sought. In practical terms, based on the Group's historical statistical information, the abovementioned monetary and economic penalties translate into stable relationships and lease contracts that are prematurely cancelled in only under 1% of cases. Based on the above consideration, the Group concluded that it is appropriate to define the lease term as the period of the entire contract term, since even if monetary penalties are prescribed only on a portion of lease term, economic penalties apply to the entire contract period.

In case there is an option to extend the lease term and the lessee is reasonably certain to exercise the option, the Group also takes the extension into account while defining the lease term. The Group analysed its contracts and in a number of cases, there was an automatic prolongation of contract in case the contract expired and neither party expressed willingness to cancel. In such cases contracts prescribed the exact term by which the contract should be extended. The terms by which specific contracts are automatically extended are based on the Group's operation department's judgment of how much more time they are planning to lease property in case the lease term is automatically extended. Therefore, the Group concluded that it is appropriate to define the lease term in this case to include the period over which the contract was automatically extended as this represents the operation department's best estimate of expected use of the leased asset.

e) Non-refundable taxes related to lease contracts

The Group also considered its approach to value added tax ("VAT") related to lease payments. Since a significant portion of the healthcare business is not subject to VAT, the Group does not a get refund from the state for the VAT paid on lease payments. Therefore, the Group considered whether the non-refundable VAT should be added to monthly lease payments and discounted together with the base amount to form the part of the right of use asset, however after analysing the IFRS literature the Group concluded that it is appropriate to exclude the VAT and account for separately as an expense even though it is non-refundable.

f) Lease payments

There are some cases when, apart from the contractual fixed payments, there are contractual variable payments as well. In accordance with IFRS 16, lease payments should not include any variable payments that do not depend on either index or rate. For example, if variable rent depends on performance, it should be excluded from lease payments. After analysing its contracts, the Group identified a number of agreements that included payments that related to utilities, marketing and that depended on revenues. Since those payments are variable, and they do not depend on any index or rate, the Group concluded that it is appropriate to exclude them from lease payments.

g) Amounts recognised in the statement of financial position and profit or loss IFRS 16.53

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

	Right-of-use assets	Lease liabilities
1 January 2020	**84,115**	**90,791**
Net additions	15,925	15,925
Depreciation expense	(18,443)	-
Interest expense	-	6,347
Net losses from foreign currencies	-	8,740
Payments	-	(24,261)
Other	-	64
As at 31 December 2020	**81,597**	**97,606**

3. Summary of Significant Accounting Policies (continued)

New and Amended Standards and Interpretations

The standards and interpretations relevant to the Group that are issued up to the date of issuance of the Group's financial statements are disclosed below. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the consolidated financial statements of the Group:

- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8 Definition of Material
- Conceptual Framework for Financial Reporting issued on 29 March 2018
- Amendments to IFRS 16 Covid-19 Related Rent Concessions

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group is in the process of assessing the impact of IFRS 17.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective *(continued)*

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

The following amendments are not expected to have a material impact on the Group's consolidated financial statements:

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- IAS 41 Agriculture – Taxation in fair value measurements

4. Significant Accounting Judgments and Estimates

The preparation of the financial statements necessitates the use of estimates, assumptions and judgments. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent liabilities at the reporting date as well as affecting the reported income and expenses for the period. Although the estimates are based on management's best knowledge and judgment of current facts as at the reporting date, the actual outcome may differ from these estimates. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Goodwill impairment test

Significant accounting judgments and estimates related to goodwill impairment test are presented in Note 12.

Impairment of receivables pharma and healthcare services

The loss allowance for receivables from pharma and healthcare services is based on the Group's assessment of the collectability of specific customer accounts. If there is a sign of deterioration in an individually significant customer's creditworthiness, the respective receivable is considered to be impaired. A key criterion for defining the signs of such deterioration is the customers' debt services quality measured by the numbers of days in arrears (i.e. the number of days for overdue payments). Based on the respective analysis of the current and past debt services of the customers, the Group determines whether or not there is an objective evidence of impairment. If yes, then the proper provision rate is applied, which reflects the credit risk associated with that particular category of debt services. If not, then the respective accounts receivable are assessed collectively, as a good quality, in a total pool for the good credit quality receivables, based on loss given default and the number of days overdue, which practically implies an immaterial amount of overdue days.

For collective assessment purposes the management judgment is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end. Assessments are updated by the Group at each reporting date. Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure. The amount of allowance for impairment of the healthcare receivables as at 31 December 2019 was GEL 16,370 (2019: GEL 22,215). Refer to Note 9.

Current income tax recognition

The current income tax charge is calculated in accordance with Georgian legislation enacted or substantively enacted by the reporting date. The Group's main business activities are operated under tax on distributed profits regime, meaning that there is no tax on retained earnings starting from 2017 for healthcare and pharma segments and from 2023 for insurance segment. Respective regulatory environment in Georgia is volatile and may give rise to different interpretations. Further details on taxation are disclosed in Note 13.

4. Significant Accounting Judgments and Estimates (continued)

Claims reserves arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date (RBNS) and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. Insurance claims provisions are not discounted for the time value of money. The carrying amount of the reserves for claims (RBNS and IBNR) as at 31 December 2020 was GEL 3,209 (2019: GEL 3,437). Refer to Note 15.

5. Segment Information

Referral hospitals represent large hospitals providing inpatient and outpatient medical services and are owned by the Group throughout the whole Georgian territory.

Clinics represent smaller hospitals providing mainly outpatient medical services and are owned by the Group throughout the whole Georgian territory.

Diagnostics represent various lab services rendered by high-technology business equipped with modern machinery.

Medical insurance comprises a wide range of medical insurance products, including personal accident insurance, term life insurance products bundled with medical insurance and travel insurance policies, which are offered by the Company's wholly owned subsidiary Imedi L.

Pharmacy and distribution comprises a wide range of drugs and para-pharmacy products which are offered through a chain of well-developed drug-stores by the Company's subsidiary JSC GEPHA.

Management monitors the operating results of each of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as in the table below, is measured in the same manner as profit or loss in the consolidated financial statements. Corporate center costs are allocated to segments.

More than 20% of the Group's revenue is derived from the State. However, management believes that the government cannot be considered as a single client, because the customers of the Group are the patients that receive medical services and not the counterparties that pay for these services. Therefore, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue in 2020 or 2019.

Selected items from the statement of financial position as at 31 December 2020 and 2019 by segments are presented below:

	31 December 2020						
	Referral Hospitals	***Clinics***	***Pharmacy and Distribution***	***Medical Insurance***	***Diagnostics***	***Intersegment transactions and consolidation***	***Total***
Assets:							
Property and equipment	403,243	97,580	35,384	13,138	14,291	–	563,636
Inventory	16,422	3,231	179,652	297	2,617	–	202,219
Liabilities:							
Accounts payable	41,231	6,939	159,121	312	7,005	(39,759)	174,849
Lease liabilities	3,168	7,547	85,919	972	–	–	97,606

	31 December 2019						
	Referral Hospitals	***Clinics***	***Pharmacy and Distribution***	***Medical Insurance***	***Diagnostics***	***Intersegment transactions and consolidation***	***Total***
Assets:							
Property and equipment	508,906	98,065	35,161	15,054	14,472	–	671,658
Inventory	16,461	1,270	155,075	–	1,656	–	174,462
Liabilities:							
Accounts payable	44,154	7,232	110,690	–	2,810	(36,369)	128,517
Lease liabilities	4,054	8,372	77,700	665	–	–	90,791

5. Segment Information (continued)

Statements of comprehensive income are presented below:

	Year ended 31 December 2020							
	Referral Hospitals excl. GNco	**Referral Hospitals**	**Clinics**	**Pharmacy and Distribution**	**Medical Insurance**	**Diagnostics**	**Intersegment transactions and consolidation**	**Total**
Healthcare services revenue	*230,218*	255,218	46,333	–	–	14,522	(16,557)	299,516
Revenue from pharma	–	–	–	679,437	–	–	(49,809)	629,628
Net insurance premiums earned	–	–	–	–	69,486	–	(601)	68,885
Revenue	***230,218***	**255,218**	**46,333**	**679,437**	**69,486**	**14,522**	**(66,967)**	**998,029**
Cost of healthcare services	*(143,105)*	(158,860)	(24,610)	–	–	(11,439)	3,013	(191,896)
Cost of sales of pharmaceuticals	–	–	–	(507,125)	–	–	51,499	(455,626)
Cost of insurance services and agents' commissions	–	–	–	–	(53,360)	–	10,363	(42,997)
Costs of services	***(143,105)***	**(158,860)**	**(24,610)**	**(507,125)**	**(53,360)**	**(11,439)**	**64,875**	**(690,519)**
Gross profit	***87,113***	**96,358**	**21,723**	**172,312**	**16,126**	**3,083**	**(2,092)**	**307,510**
Other operating income	*15,334*	15,871	823	1,646	850	58	(4,855)	14,393
Salaries and other employee benefits	*(26,908)*	(28,669)	(8,194)	(53,668)	(5,450)	(849)	2,496	(94,334)
General and administrative expenses	*(9,065)*	(9,807)	(3,011)	(25,830)	(1,566)	(486)	(131)	(40,831)
Impairment of healthcare services, insurance premiums and other receivables	*(3,827)*	(3,889)	(207)	(344)	(2,049)	–	428	(6,061)
Other operating expenses	*(6,759)*	(8,636)	(139)	(1,754)	(191)	(14)	4,115	(6,619)
	(46,559)	**(51,001)**	**(11,551)**	**(81,596)**	**(9,256)**	**(1,349)**	**6,908**	**(147,845)**
EBITDA	***55,888***	**61,228**	**10,995**	**92,362**	**7,720**	**1,792**	**(39)**	**174,058**
Depreciation and amortisation	*(24,015)*	(28,044)	(7,359)	(21,145)	(1,222)	(398)	1	(58,167)
Interest income	*8,470*	8,516	876	2,763	2,706	25	(6,016)	8,870
Interest expense	*(30,753)*	(31,372)	(5,586)	(18,976)	(910)	(533)	6,006	(51,371)
Net (losses)/gains from foreign currencies and currency derivatives	*(3,038)*	(4,177)	(944)	(21,074)	245	(5)	–	(25,955)
Loss from sale of Gnco.	–	(26,140)	–	–	–	–	–	(26,140)
Net non-recurring expense	*(2,063)*	(2,063)	(3,089)	(8,354)	(778)	(21)	–	(14,305)
Profit/(loss) before income tax expense	***4,489***	**(22,052)**	**(5,107)**	**25,576**	**7,761**	**860**	**(48)**	**6,990**
Income tax expense	–	–	–	(1,688)	(1,337)	–	–	(3,025)
Profit/(loss) for the period	***4,489***	**(22,052)**	**(5,107)**	**23,888**	**6,424**	**860**	**(48)**	**3,965**

5. Segment Information (continued)

	Year ended 31 December 2019							
	Referral Hospitals excl. GNco	**Referral Hospitals**	**Clinics**	**Pharmacy and Distribution**	**Medical Insurance**	**Diagnostics**	**Intersegment transactions and consolidation**	**Total**
Healthcare services revenue	*246,528*	289,031	44,099	–	–	5,071	(23,159)	315,042
Revenue from pharma	–	–	–	614,675	–	–	(43,839)	570,836
Net insurance premiums earned	–	–	–	–	75,358	–	(678)	74,680
Revenue	***246,528***	**289,031**	**44,099**	**614,675**	**75,358**	**5,071**	**(67,676)**	**960,558**
Cost of healthcare services	*(142,150)*	(169,286)	(24,191)	–	–	(3,818)	19,056	(178,239)
Cost of sales of pharmaceuticals	–	–	–	(457,820)	–	–	33,006	(424,814)
Cost of insurance services and agents' commissions	–	–	–	–	(64,110)	–	14,170	(49,940)
Costs of services	***(142,150)***	**(169,286)**	**(24,191)**	**(457,820)**	**(64,110)**	**(3,818)**	**66,232**	**(652,993)**
Gross profit	***104,378***	**119,745**	**19,908**	**156,855**	**11,248**	**1,253**	**(1,444)**	**307,565**
Other operating income	*16,198*	16,757	1,392	5,469	1,476	257	(6,421)	18,930
Salaries and other employee benefits	*(26,408)*	(29,100)	(7,315)	(51,162)	(5,076)	(957)	1,363	(92,247)
General and administrative expenses	*(9,821)*	(11,155)	(3,275)	(23,227)	(1,463)	(306)	98	(39,328)
Impairment of healthcare services, insurance premiums and other receivables	*(4,018)*	(4,152)	(130)	(470)	(481)	15	896	(4,322)
Other operating expenses	*(9,184)*	(11,884)	(332)	(3,225)	(99)	(86)	5,509	(10,117)
	(49,431)	**(56,291)**	**(11,052)**	**(78,084)**	**(7,119)**	**(1,334)**	**7,866**	**(146,014)**
EBITDA	***71,145***	**80,211**	**10,248**	**84,240**	**5,605**	**176**	**1**	**180,481**
Depreciation and amortisation	*(22,422)*	(27,839)	(6,858)	(18,962)	(1,106)	(207)	–	(54,972)
Interest income	*2,812*	2,844	60	632	1,372	–	(2,672)	2,236
Interest expense	*(26,526)*	(27,855)	(4,626)	(17,385)	(635)	(200)	2,667	(48,034)
Net (losses)/gains from foreign currencies and currency derivatives	*(1,766)*	(2,114)	(1,018)	(6,293)	23	(29)	–	(9,431)
Net non-recurring expense	*(816)*	(816)	(100)	(131)	–	(5)	(1)	(1,053)
Profit/(loss) before income tax expense	***22,427***	**24,431**	**(2,294)**	**42,101**	**5,259**	**(265)**	**(5)**	**69,227**
Income tax expense	–	–	–	(730)	(856)	–	–	(1,586)
Profit/(loss) for the period	***22,427***	**24,431**	**(2,294)**	**41,371**	**4,403**	**(265)**	**(5)**	**67,641**

In 2020 and 2019, the Group did not invest any amount in associates and/or joint ventures. The table below presents additions to property and equipment and intangible assets by segments:

	31 December 2020						
	Referral Hospitals	***Clinics***	***Pharmacy and Distribution***	***Medical Insurance***	***Diagnostics***	***Intersegment transactions and consolidation***	***Total***
Additions to:							
Property and equipment	14,351	3,191	5,003	353	186	–	23,084
Intangible assets	8,261	179	952	332	628	–	10,352

	31 December 2019						
	Referral Hospitals	***Clinics***	***Pharmacy and Distribution***	***Medical Insurance***	***Diagnostics***	***Intersegment transactions and consolidation***	***Total***
Additions to:							
Property and equipment	16,775	5,077	9,524	304	1,823	–	33,503
Intangible assets	8,892	1,126	508	228	1,480	–	12,234

6. Cash and Cash Equivalents

	2020	2019
Current and on-demand accounts with banks	101,975	16,067
Cash on hand	2,415	2,313
Total cash and cash equivalents	**104,390**	**18,380**

Cash and cash equivalents of Imedi L on a standalone basis are GEL 9,326 (2019: GEL 2,994). The requirement of the Insurance State Supervision Service Agency of Georgia ("ISSSA") is to maintain a minimum level of cash and cash equivalents at 10% of the total insurance contract liabilities subject to mandatory reserve requirements as defined by the ISSSA regulatory reserve requirement resolution, which as at the reporting date amounts to GEL 1,558 (2019: GEL 887). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

7. Amounts Due from Credit Institutions

	2020	2019
Time deposits with banks, foreign currency	36,867	3,805
Time deposits with banks, local currency	14,414	9,783
Total amounts due from credit institutions	**51,281**	**13,588**

As at 31 December 2020, amounts due from credit institutions are represented by short (remaining maturity from reporting date of 1 to 12 months) and medium-term placements with banks and earn annual interest of 4% to 12.8% (2019: 4% to 12.8%).

8. Insurance Premiums Receivable

	2020	2019
Insurance premiums receivable from policyholders	26,111	29,764
Less – Allowance for impairment (Note 29)	(4,920)	(2,872)
Total insurance premiums receivables, net	**21,191**	**26,892**

The carrying amounts disclosed above reasonably approximate their fair values as at 31 December 2020 and 2019.

9. Receivables from Healthcare Services

	2020	2019
Receivables from State	79,043	119,725
Receivables from individuals and other	30,608	27,184
Receivables from insurance companies	2,603	5,518
	112,254	**152,427**
Less – Allowance for impairment	(16,370)	(22,215)
Total receivables from healthcare services, net	**95,884**	**130,212**

The carrying amounts disclosed above reasonably approximate their fair values as at 31 December 2020 and 2019.

10. Property and Equipment

The movements in property and equipment were as follows:

	Land and office buildings	*Hospitals and clinics*	*Furniture and fixtures*	*Computers*	*Medical equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost									
1 January 2019	25,521	424,563	25,462	20,970	227,897	6,396	13,887	338	745,034
Additions	324	4,740	4,741	4,448	8,838	1,548	8,864	–	33,503
Disposals	(2,701)	–	(629)	(312)	–	(280)	(10)	(25)	(3,957)
31 December 2019	23,144	429,303	29,574	25,106	236,735	7,664	22,741	313	774,580
Additions	515	2,945	4,922	3,199	11,216	76	201	10	23,084
Disposals	(2,589)	–	(304)	(345)	–	(142)	(190)	–	(3,570)
Disposal of a subsidiary	–	(64,622)	(3,734)	(898)	(46,801)	(137)	(24)	–	(116,216)
31 December 2020	21,070	367,626	30,458	27,062	201,150	7,461	22,728	323	677,878
Accumulated depreciation									
1 January 2019	497	10,753	4,657	8,474	41,931	2,742	3,139	–	72,193
Depreciation charge	255	4,163	2,243	3,660	18,741	1,243	1,399	–	31,704
Disposals	(33)	–	(471)	(209)	–	(257)	(5)	–	(975)
31 December 2019	719	14,916	6,429	11,925	60,672	3,728	4,533	–	102,922
Depreciation charge	230	5,381	2,662	4,741	20,670	1,144	1,397	–	36,225
Disposals	(277)	–	(215)	(266)	–	(135)	(23)	–	(916)
Disposal of a subsidiary	–	(1,202)	(728)	(587)	(21,333)	(126)	(13)	–	(23,989)
31 December 2020	672	19,095	8,148	15,813	60,009	4,611	5,894	–	114,242
Net book value:									
31 December 2018	25,024	413,810	20,805	12,496	185,966	3,654	10,748	338	672,841
31 December 2019	22,425	414,387	23,145	13,181	176,063	3,936	18,208	313	671,658
31 December 2019	20,398	348,531	22,310	11,249	141,141	2,850	16,834	323	563,636

The Group pledges its office and hospital buildings and assets under construction as collateral for its borrowings. The carrying amount of the buildings and assets under construction pledged as at 31 December 2020 was GEL 348,531 (2019: GEL 414,387).

11. Right of Use Assets and Lease Liabilities

The Group has lease contracts for buildings used in its operations. Leases of buildings generally have lease terms between 1 and 10 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. The Group also has certain leases of machinery with lease terms of 12 months or less and leases of equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets. None of the contracts require the Group to maintain any financial ratios.

The Group analysed existence of termination options of all contracts, including contracts to lease drugstores, policlinics and office spaces, contain either monetary or economic penalty over the entire contract term. In most of the cases, there is a monetary penalty for lessor to repay the lessee all the initially spent amounts on leasehold improvements in case of cancellation. In virtually all cases, there is economic penalty for both parties in case of cancellation of lease contracts. For lessee economic penalties imply significant time and effort for finding a new location and making leasehold improvements to fit the new location to the drugstore or policlinic specific needs. For lessor economic penalties imply forgoing stable relationship with creditworthy lessee. In case of office space, economic penalty implies significant time, effort and cost related to relocation of office and its infrastructure. In practical terms, the abovementioned monetary and economic penalties translate to stable relationship and lease contracts that are prematurely cancelled in only under 1% of cases based on the Group's statistical historical information.

The Group analysed existence of variable lease payments. After analysing its contracts, the Group identified several contracts that included payments that related to utilities, marketing and that depended on revenues. Since those payments are variable, and they do not depend on any index or rate, the Group concluded that it is appropriate to exclude them from lease payments. The magnitude of variable lease payments on overall Group level is small and does not exceed 3% of the fixed payments.

The table below presents carrying values of right of use assets by operating segments:

	2020	*2019*
Pharmacy and distribution business	71,888	72,149
Clinics business	6,104	7,551
Hospitals business	2,752	3,818
Medical insurance business	853	597
Total right of use assets	**81,597**	**84,115**

The table below presents carrying values of lease liabilities by operating segments:

	2020	*2019*
Pharmacy and distribution business	85,919	77,700
Clinics business	7,547	8,372
Hospitals business	3,168	4,054
Medical insurance business	972	665
Total Lease Liabilities	**97,606**	**90,791**

For more details, refer to Note 3.

12. Goodwill and Other Intangible Assets

The table below presents carrying values of goodwill by operating segments and other intangible assets:

	Effective annual terminal growth rate	*Discount rate applied for impairment test*	*2020*	*2019*
Pharmacy and Distribution Goodwill	5%	15.4%	77,755	77,755
Referral Hospitals Goodwill	5%	15.0%	15,909	27,857
Clinics Goodwill	5%	14.8%	5,710	5,710
Medical Insurance Goodwill	5%	16.0%	3,462	3,462
Total Goodwill			**102,836**	**114,784**
Other Intangible assets*			55,889	47,463
Total Goodwill and Other Intangible Assets			**158,725**	**162,247**

* Net of accumulated amortisation

12. Goodwill and Other Intangible Assets (continued)

In performing goodwill impairment testing, the following key assumptions were made:

- Discount rate was estimated using capital assets pricing model based on industry's beta.
- 2021, 2022 and 2023 years' cash flow projections were modelled applying the following growth rates:
    - Pharmacy and Distribution business - 5% growth rate.
    - Referral Hospitals business – growth for subsequent years - 9%; 5% terminal growth rate.
    - Clinics business – growth for subsequent years - 12% to 15%; 5% terminal growth rate.
    - Medical Insurance business – 5% growth rate.
- Moderate, stable 4.9% real GDP growth was assumed based on the external statistical forecasts for 2022 and beyond.

For the Referral Hospitals and Clinics Goodwill cash-generating units, the following additional assumptions were made over the first three-year period of the business plan:

- Further synergies will increase cost efficiency and further improve operating leverage;
- Growth of other healthcare business lines through an increased market demand and economic growth.

Goodwill is tested at the lowest level monitored by management, which is at the operating segment level. The Group performs goodwill impairment testing annually. The latest impairment test performed by the Group was as at 31 December 2020. The Group did not identify any impairment of goodwill as at 31 December 2020. The recoverable amounts of the cash-generating units have been determined based on value-in-use calculations using cash flow projections based on financial budgets approved by senior management covering from a one to three-year period. The recoverable amount of the hospitals operating segment exceeds carrying amount by GEL 166,006 using the discount rate of 15.0%. The discount rate that brings value in use of hospitals segment equal to the carrying value is 18.1%. The recoverable amount of the clinics operating segment exceeds carrying amount by GEL 42,521 using the discount rate of 14.8%. The discount rate that brings value in use of clinics segment equal to carrying value is 17.9%.

Other intangible assets comprise licenses and computer software. As at 31 December 2020, the cost of other intangible assets equalled GEL 69,459 (2019: GEL 59,107) and accumulated amortisation equalled GEL 13,570 (2019: GEL 11,644). Additions to intangible assets during 2020 comprised GEL 10,352 (2019: GEL 12,234), which includes capitalised salaries on HIS and Ekimo projects, as well as purchases of other intangible assets including software licenses and various modules. The Group did not dispose any of its intangible assets in either 2020 or 2019 years. Amortisation expense during 2020 comprised GEL 3,499 (2019: GEL 4,661). The Group did not identify any impairment of intangible assets as at 31 December 2020 and 2019.

13. Taxation

The corporate income tax expense equals to current income tax of GEL 3,025 (2019: GEL 1,586). Georgian legal entities must file individual tax declarations. As at 31 December 2020, the statutory corporate tax rate was zero (2019: 0%) on retained earnings and 15% (2019: 15%) tax rate on distributed earnings.

14. Inventory

	2020	*2019*
Inventory held by pharma business (FIFO)	179,652	155,075
Inventory held by healthcare business (weighted average cost)	22,567	19,387
Total	**202,219**	**174,462**

Increase in pharma business inventory year over year is mainly caused by growth of pharma business. The Group performed inventory net realisable value test and did not identify impairment of inventory as at 31 December 2020 and 2019. Inventories recognised as an expense during 2020 comprised GEL 521,752 (2019: GEL 473,003).

15. Insurance Contract Liabilities

	2020	*2019*
- Unearned premiums reserve ("UPR")	20,908	22,052
- Reserves for claims reported but not settled ("RBNS")	1,503	1,590
- Reserves for claims incurred but not reported ("IBNR")	1,706	1,847
Total insurance contracts liabilities	**24,117**	**25,489**

16. Borrowings

	2020	2019
Borrowings from foreign financial institutions	190,967	136,113
Borrowings from local financial institutions	101,845	126,586
Borrowings from non-controlling interest shareholders	-	6,735
Total borrowings	**292,812**	**269,434**

In 2020, borrowings from local financial institutions had an average interest rate of 11.44% per annum (2019: 11.05%), maturing on average in 631 days (2019: 750 days). Borrowings from international financial institutions had an average interest rate of 9.72% (2019: 9.28%), maturing in 962 days (2019: 1,591 days). Some borrowings are received upon certain conditions, such as maintaining different limits for leverage, capital investments, minimum amount of immovable property and others. As at 31 December 2020 and 2019, the Group complied with all these lender covenants.

17. Accounts Payable

	2020	2019
Accounts payable for healthcare materials and supplies	151,728	109,553
Payable for purchase of property and equipment	10,962	7,074
Accounts payable for office supplies	4,994	6,489
Accounts payable for healthcare services	294	686
Other accounts payable	6,871	4,715
Total accounts payable	**174,849**	**128,517**

18. Debt securities issued

In November 2019, Evex Hospitals issued five-year term local bonds of GEL 50 million, out of which GEL 17.5 million were acquired by the entities within the group. The bonds were issued at par value with annual coupon rate of 11.6%, representing a 310 basis points premium over the National Bank of Georgia Monetary Policy (refinancing) Rate. The proceeds were used to refinance borrowings from local commercial banks as well as previously issued debt securities. Total balance of debt securities issued as at 31 December 2020 equals GEL 94,400 (2019: GEL 94,151).

In July 2017, Evex Hospitals issued five-year term local bonds of GEL 90 million. The bonds were issued at par value with an annual coupon rate of 10.5% representing a 350 basis points premium over the National Bank of Georgia Monetary Policy (refinancing) Rate. The proceeds were used to refinance borrowings from local commercial banks, which are a relatively more expensive source of funding, and also to fund planned ongoing capital expenditures.

19. Payables for Share Acquisitions

Payables for share acquisitions (also referred to as a "holdback" or an "acquisition holdback") are stated at fair value and represent outstanding amounts payable for business combinations and acquisition of non-controlling interest in existing subsidiaries. Payables for business combination is a portion of the total consideration, payment of which is deferred for a specified period of time in the future and, usually, is contingent upon certain events or conditions precedent or covenants established by the buyer. These conditions are: (i) The audited total equity balance in accordance with IFRS should not be materially different compared to management accounts existing as at the date of deal; (ii) Material unrecorded liabilities should not be identified; (iii) Any liabilities of the acquiree and/or its related parties towards the acquirer should not remain unpaid for greater than pre-determined period after acquisition. Once these conditions precedent are fulfilled, the holdback amount is then paid fully or adjusted, as prescribed in the share purchase agreement for each particular business combination.

Payables for share acquisitions comprised:

	2020	2019
Holdback for the acquisition of JSC ABC Pharmacy	111,604	95,713
LLC Emergency Service	389	389
JSC Pediatry	–	347
Total Payables for Share Acquisitions	**111,993**	**96,449**

As at 31 December 2020, GEL 98,882 (2019: GEL 79,480) from JSC ABC holdback amount of GEL 111,604 (2019: GEL 95,713) represents redemption liability arising from put option held by minority shareholders of JSC GEPHA which can be exercised in 2022 in case of which the Group will have to acquire from non-controlling interests the remaining 33% share, based on pre-determined EBITDA multiple (4.5 times EBITDA). Payables for share acquisitions are measured at fair value: Put option is measured at present value of the best estimate of ultimately payable amount. Holdbacks for business acquisitions are measured at fair value, being the best estimate of price that would be paid to transfer a liability. During 2020, the Group paid GEL 5,925 from the JSC ABC holdback amount (2019: GEL 5,224).

20. Commitments and Contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

As at 31 December 2020, the Group had litigations with the Social Service Agency ("SSA") in relation to an aggregate amount of GEL 6,985 (2019: GEL 7,717). The litigation with SSA was mainly related to procedural violations in medical documentation as well as the billing and invoicing process.

Tax risk

Starting from 2019, the Group has recognised right of use asset on the face of its statement of financial position according to IFRS 16 (which is effective starting from 1 January 2019). The Group believes that tax risk associated with property tax of right of use assets is possible but not probable. Possible impact of property tax for the year ended 31 December 2019 equals GEL 811.

Financial commitments and contingencies

The Group's financial commitments and contingencies comprise the following:

	2020	*2019*
Capital commitments	**849**	**951**
Operating lease commitments		
- Leases due not later than 1 year	653	938
- Leases due later than 1 year but not later than 5 years	2,612	3,874
Total minimum operating lease commitments	**3,265**	**4,812**
Total financial commitments	**4,114**	**5,763**

As at 31 December 2019, capital commitments mainly comprised contracts related to the development of dental service. The Group did not have contingent rents or sublease payments. Rent expense recognised during the year equalled GEL 2,496 (2019: GEL 3,573).

21. Equity

Share Capital

Share capital of JSC Georgia Healthcare Group is denominated in GEL and parent company of JSC Georgia Healthcare Group is entitled to dividends in GEL. Management and board of JSC Georgia Healthcare Group declared dividend of GEL 0.1632 per share, totalling GEL 18,601 to parent company Georgia Healthcare Group plc in 2020, of which GEL 10,476 was paid as of 31 December 2020.

As at 31 December 2020 and 2019, number of ordinary shares comprised 113,951,398 totalling GEL 113,951.

Additional paid in Capital

Additional paid-in-capital comprises credits or debits to equity on GHG share-related transactions. Any GHG share-related transaction impact (including share-based compensations) on top of nominal amount of GHG shares (0.01 GEL) is posted in additional paid-in-capital account.

Nature and purpose of other reserves

In 2017, as part of the ABC acquisition contract, the selling shareholders have a put option to sell their remaining 33% stake in the combined pharmacy and distribution business to GHG during the period from 1 January 2023 to 31 December 2023. At initial recognition, in accordance with IFRS requirements, the Group recognised GEL 55 million (present value) liability to purchase the remaining 33% shares - included in the payable for share acquisitions caption. The non-controlling interest arising from the consolidated pharmacy and distribution business, was fully de-recognised in accordance with IFRS requirements. The difference between the redemption liability of GEL 55 million and the non-controlling interest of GEL 24 million was debited to equity, resulting in a reduction of equity through other reserves by GEL 31 million. The redemption liability is carried at fair value and interest is unwound on each reporting date.

During 2020, GEL 15,950 was debited to the other reserves in the line of "Acquisition of additional interest in existing subsidiaries" (as a result of put option accounting discussed above). Besides, as a result of the same transactions, GEL 3,452 was debited to non-controlling interest. As at 31 December 2020, losses from sale/acquisition of shares in existing subsidiaries equalled GEL 63,565 (2019: GEL 47,615), and the remaining debit to other reserves comprised loss from currency translation differences on consolidation of foreign-based subsidiary.

21. Equity (continued)

Regulatory Capital Requirements

Regulatory capital requirements in Georgia are set by the ISSSA and are applied to Imedi L solely on a standalone basis. The ISSSA requirement is to maintain a minimum Capital of GEL 4,685, which should be kept in current accounts. A bank confirmation letter is submitted to ISSSA on a quarterly basis in order to prove compliance with the above-mentioned regulatory requirement. Imedi L regularly and consistently complies with the ISSSA regulatory capital requirement.

22. Healthcare Services and Pharmacy and Distribution Revenue

	2020	*2019*
Healthcare services revenue from State (UHC), *of which:*	206,913	223,917
Revenue from Covid-hospitals and Covid-clinics	*20,468*	–
Healthcare services revenue from out-of-pocket and other	84,575	84,299
Healthcare services revenue from insurance companies	10,564	9,346
Less: Corrections & rebates	(2,536)	(2,520)
Total healthcare services revenue	**299,516**	**315,042**
Retail	487,362	430,312
Wholesale	142,266	140,524
Total revenue from pharmacy and distribution	**629,628**	**570,836**

The Group has recognised the following revenue-related contract assets and liabilities:

	2020	*2019*
Deferred revenues	5,497	4,906
Receivables from healthcare services	95,884	130,212
Receivables from sale of pharmaceuticals	25,042	17,508

During 2020, due to the increased spread of the COVID-19 virus, the business has mobilised ten healthcare facilities, four clinics and six hospitals to receive COVID patients only and ten healthcare facilities as hybrid ones, focused on both COVID and non-COVID patients. Revenue generated by such facilities amounted GEL 20,468 during 2020. The Government of Georgia fully reimburses costs associated with COVID-19 treatments and pays a fixed fee amount per each occupied bed for COVID patient (Note 1).

Receivables from healthcare services are recognised when the right to consideration becomes unconditional. In second half of 2019, the Government delayed the payment of certain receivables to the group, resulting in unusually high balance of receivable from healthcare services at the end of 2019. These overdue amounts were repaid during first half of 2020, thus decreasing the total balance of receivables from healthcare services compared as at 31 December 2020, compared to 2019. Deferred revenue is recognised as revenue as the Group performs under the contract.

The Group recognised GEL 2,301 revenue in the current reporting period that relates to carried-forward contract liabilities and is included in deferred revenues.

In 2020, the Group has recognised the following amounts relating to revenue from contracts with customers in the income statement: Healthcare services revenue of GEL 299,516; Revenue from pharmacy and distribution of GEL 629,628. The Group applies practical expedient mentioned in IFRS 15.121 and does not disclose information about the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied, the original expected duration of the underlying contracts is less than one year.

23. Net Insurance Premiums Earned

	2020	*2019*
Gross premiums written	67,776	77,557
Change in unearned premiums reserve	1,109	(2,877)
Total net insurance premiums earned	**68,885**	**74,680**

24. Cost of Healthcare Services and Pharmaceuticals

	2020	*2019*
Cost of salaries and other employee benefits	(108,066)	(112,321)
Cost materials and supplies	(66,126)	(48,189)
Cost of utilities and other	(15,374)	(14,449)
Cost of providers	(2,330)	(3,280)
Total cost of healthcare services	**(191,896)**	**(178,239)**
Retail	(343,605)	(309,213)
Wholesale	(112,021)	(115,601)
Total cost of sales of pharmaceuticals	**(455,626)**	**(424,814)**

Cost of utilities and other comprise electricity, natural gas, cleaning, water supply, fuel supply, repair and maintenance of medical equipment. Indirect salaries that were not included in the cost of healthcare services amounted in 2020 to GEL 94,334 (2019: GEL 92,247) and were presented as a separate line item in profit or loss. The total amount of salaries and other employee benefits recognised as an expense in profit or loss in 2020 amounted to GEL 202,400 (2019: GEL 204,568).

25. Cost of Insurance Services and Agents' Commissions

	2020	*2019*
Insurance claims paid	(40,676)	(46,175)
Change in insurance contract liabilities	292	(964)
Net insurance claims incurred	**(40,384)**	**(47,139)**
Agents, brokers and employee commissions	(2,613)	(2,801)
Cost of insurance services and agents' commissions	**(42,997)**	**(49,940)**

26. Other Operating Income

	2020	*2019*
Gain from call option (Note 36)	5,800	6,150
Gain from property and equipment sold	2,291	2,867
Rental Income	1,539	1,365
Income from disposal of associate	780	–
Income from residency program	543	422
Fee Income	13	1,479
Payables derecognised	–	1,924
Share of profit of associate	–	357
Other	3,427	4,366
Total other operating income	**14,393**	**18,930**

As part of the ABC acquisition contract acquirer (JSC GEPHA) has a call option to buy the remaining non-controlling interest, which is a 33% stake in the combined pharmacy and distribution business during the period from 1 January 2023 to 31 December 2023. In 2020, in accordance with IFRS requirement's the Group recognised GEL 5,800 (2019: GEL 6,150) gain from the call option.

27. Salaries and Other Employee Benefits

	2020	*2019*
Salaries and other benefits	(83,836)	(79,510)
Cash bonuses	(7,892)	(7,772)
Share-based compensation	(2,606)	(4,965)
Total salaries and other employee benefits	**(94,334)**	**(92,247)**

Average number of full-time employees, including those whose salaries are included in cost of healthcare services, in 2020 equalled 15,450 (2019: 16,060). Average number of physicians comprised 3,447 in 2020 (2019: 3,585). Average number of nurses comprised 3,252 in 2020 (2019: 3,349). Average number of pharmacists comprised 2,897 in 2020 (2019: 2,865).

In 2020, total amount of management share-based compensation prior to capitalisation of eligible costs equalled to GEL 4,782 (2019: GEL 6,978). Portion of share-based compensation costs were capitalised on development projects.

28. General and Administrative Expenses

	2020	*2019*
Office supplies and utility expenses	(8,383)	(7,107)
Marketing and advertising	(7,220)	(8,850)
Professional services	(3,321)	(2,119)
Bank fees and commissions	(3,216)	(2,424)
Short -term and low value lease expense/Rent expense	(2,496)	(3,573)
Administrative utilities	(2,407)	(2,297)
Communication	(1,708)	(1,917)
Security	(1,645)	(1,220)
Operating tax expense	(443)	(3,695)
Representative expense	(347)	(1,353)
Travel	(301)	(1,008)
Other	(9,344)	(3,765)
Total general and administrative expenses	**(40,831)**	**(39,328)**

In 2020 and 2019, other general and administrative expenses mainly comprised training, property insurance and other expenses.

In 2020, audit fees payable for the audit of the Group's current year consolidated financial statements comprised GEL 933 (2019: GEL 39 and GEL 1,036 for the audit of the parent's and the Group's financial statements respectively).

29. Impairment of Healthcare Services, Sales of Pharmaceuticals, Insurance Premiums and Other Receivables

	Insurance and reinsurance receivables	*Receivables from healthcare services*	*Receivables from Pharma*	*Other receivables*	*Total*
1 January 2019	**2,391**	**19,189**	**585**	**2,428**	**24,593**
Impairment charge/(reversal)	481	3,371	470	–	4,322
Write-off	–	(345)	(678)	–	(1,023)
31 December 2019	**2,872**	**22,215**	**377**	**2,428**	**27,892**
Impairment charge/(reversal)	2,049	3,668	344	–	6,061
Disposal of a subsidiary	–	(9,610)	–	–	(9,610)
Write-off	(1)	97	(3)	–	93
31 December 2020	**4,920**	**16,370**	**718**	**2,428**	**24,436**

As at 31 December 2020, gross amount of written-off enforceable receivables equalled GEL 32,212 (2019: GEL 31,821).

30. Other Operating Expense

	2020	*2019*
Repair and maintenance expense	(2,992)	(2,857)
Penalties and impairment of tax assets	(584)	(1,120)
Loss from property and equipment sold	(264)	(1,584)
Charity	(173)	(307)
Client referral fee expense	(1,408)	(2,258)
Other	(1,198)	(1,991)
Total other operating expense	**(6,619)**	**(10,117)**

In 2020 and 2019, the penalty expenses mainly related to procedural violations in medical documentation as well as billing and invoicing process.

31. Interest Income and Interest Expense

	2020	2019
Interest income		
Interest income from loans issued/acquired	3,375	1,016
Interest income from amounts due from credit institutions	5,495	1,220
Total interest income	8,870	2,236
Interest expense		
Interest expense on borrowings	(34,584)	(32,929)
Interest expense on debt securities issued	(10,440)	(9,391)
Interest expense on lease	(6,347)	(5,714)
Total interest expense	(51,371)	(48,034)

32. Loss from Sale of Subsidiary and Net Non-Recurring Expense

Loss from Sale of subsidiary

In August 2020, GHG signed a Sales and Purchase Agreement to sell 40% equity interest in GNco to Tbilisi State Medical University. Total cash consideration for the sale is USD 12 million (GEL 36.8 million). The table below sets out the details of this transaction:

Net assets disposed	93,359
Goodwill disposed	11,948
Non-controlling interest balance as at disposal date	(46,349)
Total	58,958
Proceeds from sale of GNco.	36,835
Transaction related costs	(4,017)
Net proceeds from sale of GNco.	32,818
Loss from disposal of GNco.	26,140

Net Non-Recurring Expense

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. Any type of income or expense may be non-recurring by nature. The Group defines non-recurring income or expense as income or expense triggered by or originated from an unusual economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors.

Net non-recurring expense for the year ended 31 December 2020 comprised:

- GEL 10,021 loss from accelerating employee share-based compensation expense (Note 33);
- GEL 1,803 loss from write-off of assets related to clinics segment;
- GEL 1,193 loss from one-off cash bonus paid to medical personnel;
- GEL 415 loss from employee dismissal compensation;
- GEL 354 fees paid related to share exchange facility for GHG shareholders;
- GEL 185 loss from acquiring additional interest in existing subsidiary;
- GEL 158 loss from medical materials (ventilators) gifted to state agencies;
- GEL 176 loss from other individually insignificant transactions;

Net non-recurring expense for the year ended 31 December 2019 comprised:

- GEL 882 loss from employee dismissal compensation;
- GEL 171 loss from other individually insignificant transactions;

33. Share-Based Compensation

On 8 July 2020, following an application by GCAP, the Financial Conduct Authority has cancelled the listing of Georgia Healthcare Group PLC, the parent company, shares on the premium listing segment of the Official List and the London Stock Exchange and has cancelled the trading of Georgia Healthcare Group PLC shares on the London Stock Exchange's main market for listed securities. Thus, all shares awarded to employees in previous years have been vested on 8 July 2020. As a result of above-mentioned transaction, share based compensation expense attributable to shares vested as a result of cancellation of the listing, has been posted in the statement of profit and loss (Note 32).

In January 2020, the Board of Directors of GHG resolved to award 543,195 ordinary shares of GHG to the CEO of the Group. In February 2019, the Board of Directors of GHG resolved to award 788,422 ordinary shares of GHG to 6 executives. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 31 January 2020 as the grant date for the awards to the CEO and other executives. The Group estimates that the fair value of the shares awarded was GEL 4.63 per share as at grant date. The fair values were identified based on market prices on grant date. As at 30 June 2020, no shares have been vested.

In February 2019, the Board of Directors of GHG resolved to award 111,301 ordinary shares of GHG to the CEO of the Group. In February 2019, the Board of Directors of GHG resolved to award 173,121 ordinary shares of GHG to 3 executives. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 8 February 2019 as the grant date for the awards to the CEO and other executives. The Group estimates that the fair value of the shares awarded was GEL 8.02 per share as at grant date. The fair values were identified based on market prices on grant date. As at 30 June 2020, one third of the discretionary shares have been vested.

34. Capital Management

Capital under management consists of share capital, additional paid-in capital, retained earnings including profit or loss of the current year, other reserves, non-controlling interests borrowings and debt securities issued. The Group has established the following capital management objectives, policies and approach to managing the risks that affect its capital position.

The capital management objectives are as follows:

- To maintain the required level of stability of the Group, thereby providing a degree of security to the shareholders as well as insurance policyholders of the insurance arm;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;
- To maintain financial strength to support new business growth and to satisfy the requirements of the shareholders, regulators as well as insurance policyholders for the insurance arm.

Some operations of the Group are subject to local regulatory requirements in Georgia. These requirements impose certain restrictive provisions for the insurance arm, such as insurance capital adequacy and the minimum insurance liquidity requirement, to minimise the risk of default and insolvency and to meet unforeseen liabilities as they arise.

During 2020 and 2019, the Group complied with all regulatory requirements as well as insurance capital and insurance liquidity regulations, in full.

The Group's capital management policy for its insurance business is to hold the least required amount of regulatory capital and, also, to hold sufficient liquid assets to cover statutory requirements based on the directives of ISSSA. The regulations of ISSSA require that an insurance company must hold liquid assets of at least 75% of its unearned premium reserve, net of gross insurance premiums receivable, and 100% of its loss reserves. Assets eligible for inclusion in liquid assets are: cash and cash equivalents, amounts due from credit institutions, loans issued/acquired, investment property as well as other financial assets, as defined by ISSSA. The amount of such minimum liquid assets is called the "Statutory Reserve".

The Statutory Reserve requirement for Imedi L as at 31 December 2020 equals the minimal amount of liquid assets of GEL 15,583 (2019: GEL 8,868). The insurance company is fully compliant with the requirement by holding GEL 17,478 (2019: GEL 12,930) of total eligible liquid assets.

34. Capital Management (continued)

Changes in liabilities arising from financing activities:

	Borrowings	Debt securities issued	Total
1 January 2020	**269,434**	**94,151**	**363,585**
Proceeds from borrowings	127,637	–	127,637
Repayment of borrowings	(109,889)	–	(109,889)
Disposal of a subsidiary	(13,606)	–	(13,606)
Interest expense	34,584	10,440	45,024
Interest paid	(29,821)	(10,191)	(40,012)
Foreign exchange (gain)/loss	14,473	–	14,473
31 December 2020	**292,812**	**94,400**	**387,212**

	Borrowings	Debt securities issued	Total
1 January 2019	**296,817**	**93,573**	**390,390**
Proceeds from borrowings	113,350	32,250	145,600
Repayment of borrowings	(150,072)	(30,300)	(180,372)
Interest expense	32,929	9,391	42,320
Interest paid	(28,778)	(10,763)	(39,541)
Foreign exchange (gain)/loss	5,188	–	5,188
31 December 2019	**269,434**	**94,151**	**363,585**

For roll-forward of lease liabilities refer to Note 3.

35. Risk Management

Introduction

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to insurance risk, credit risk, liquidity risk and market risk. It is also subject to operational risks. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Management Board

The Management Board is responsible to shareholders for creating and delivering sustainable shareholder value through the management of the Group's businesses. Among its responsibilities are setting and executing the Group's strategy within a framework of effective risk management and internal controls, demonstrating ethical leadership and upholding best practice corporate governance. The Management Board comprises 14 managers, nine of whom are involved in Group-level management, while the remaining five managers are involved in management of operating entities.

Internal audit department

The internal audit department is responsible for monitoring compliance with principles, frameworks, policies and limits in accordance with the Group's risk management strategy related to the general control environment, manual and application controls, risks of intentional or unintentional misstatements, risk of fraud or misappropriation of assets, information security, information technology risks, etc. The internal audit department facilitates the activities of the external auditors of the Group.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is the Base Case (forecast under normal business conditions) and the other two are the Troubled and Distressed Scenarios, which are worse and the worst-case scenarios, respectively, that would arise in the event that extreme events that are unlikely to occur do, in fact, occur. Monitoring and controlling risks are primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

35. Risk Management (continued)

Risk measurement and reporting systems (continued)

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board and the head of each business division. The reports include aggregate receivables exposures and credit exposures, their limits, exceptions to those limits, insurance contract liability positions and their limits, liquidity ratios and liquidity limits, market risk ratios and their limits, and changes to the risk profile. Senior management assesses the appropriateness of the levels of liquidity, credit positions, receivables positions and allowance for impairment on a monthly basis. The Management Board receives a comprehensive risk report once a month. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures to net currency position, insurance liabilities risks, interest rates and credit risks. The Group actively uses a collective financial responsibility approach to individual healthcare customers arising from the provision of healthcare services to out-of-pocket customers, to manage the respective individual debtors arising from healthcare services falling out of the scope of the UHC.

Insurance risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid that are greater than originally estimated and subsequent development of long-term claims. The Group primarily uses its loss ratio and its combined ratio to monitor its insurance risk. Loss ratio is defined as net insurance claims divided by net insurance revenue. Combined ratio is sum of loss ratio and expense ratio. Expense ratio is defined as insurance related operating expenses excluding interest expense divided by net insurance revenue.

The Group's loss ratios and combined ratios were as follows:

	2020	*2019*
Loss ratio	73.0%	81.4%
Combined ratio	90.8%	94.1%

The Group issues the following types of insurance contracts: health, term life bundled with health, personal accident and travel insurance. The table below sets out concentration of insurance contract liabilities by type of contract:

For these insurance contracts the most significant risks arise from lifestyle changes, epidemic as well as changes in loss frequency and increases in prices of medical services. These risks vary significantly in relation to the location of the risk insured by the Group and the type of risks insured.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategies.

The Group establishes underwriting guidelines and limits that stipulate who may accept risks, their nature and applicable limits. These limits are continuously monitored. Strict claim review policies to assess all new and ongoing claims, as well as the investigation of possible fraudulent claims are in place. The Group also enforces a policy of actively managing and promptly processing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for product and currency concentrations, and by monitoring exposures in relation to such limits. Also, the Group establishes and regularly monitors credit terms by types of debtors, which is a proactive tool for managing the credit risk.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular analysis of debt service and ageing of receivables. Counterparty limits are established in combination with credit terms. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The credit quality of financial assets is managed by the Group based on number of overdue days. The table below shows maximum exposure to credit risk and credit quality by class of asset in the statement of financial position.

35. Risk Management (continued)

Credit quality per class of financial assets

	Notes	*Neither past due nor impaired*	*Past-due but not impaired*	*Impaired*	*Total*
31 December 2020					
Amounts due from credit institutions	7	51,281	–	–	51,281
Insurance premiums receivable	8	21,191	–	4,920	26,111
Receivables from sales of pharmaceuticals		25,042	–	718	25,760
Receivables from healthcare services	9	95,884	–	16,370	112,254
Other assets: loans issued		9,562	–	–	9,562
		202,960	**–**	**22,008**	**224,968**

	Notes	*Neither past due nor impaired*	*Past-due but not impaired*	*Impaired*	*Total*
31 December 2019					
Amounts due from credit institutions	7	13,588	–	–	13,588
Insurance premiums receivable	8	26,892	–	2,872	29,764
Receivables from sales of pharmaceuticals		17,508	–	377	17,885
Receivables from healthcare services	9	81,466	48,746	22,215	152,427
Other assets: loans issued/acquired and lease deposit	15	14,403	–	–	14,403
		153,857	**48,746**	**25,464**	**228,067**

Financial assets that are in overdue for less than 30 days are considered to have relatively low credit risk unless there is some forward-looking evidence to the contrary. Such assets are classified in grades "AA" (table 1 in Note 3) and "A" (table 2 in Note 3) in accordance with the Group's accounting policy and are included in "neither past due not impaired" category. The forward-looking evidence can be from the third-party sources including mass media, credit rating changes by rating provider agencies and events that have not yet affected but are expected to have impact on the creditworthiness of the third-parties. Below is the summary of grades as included in the categories presented in the table above:

- Neither past due nor impaired category includes grades "AA" (table 1 in Note 3) and "A" (table 2 in Note 3)
- Past-due but not impairment category includes receivables from grades "A", "B" and "C" (table 1 in Note 3) and "B" and "C" (table 2 in Note 3)
- Impaired category includes receivables from grade "D" (both table 1 and table 2 in Note 3)

35. Risk Management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet all its payment obligations when they fall due under normal or stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its capital, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates daily monitoring of expected cash flows and liquidity needs.

The Group manages the maturities of its assets and liabilities for better matching, which helps the Group additionally mitigate the liquidity risk. The major liquidity risks confronting the Group are the daily calls on its available cash resources in respect of supplier contracts, claims arising from insurance contracts and the maturity of borrowings.

The table below analyses assets and liabilities of the Group into their relevant maturity groups based on the remaining period at the reporting date to their contractual maturities or expected repayment dates.

31 December 2020	*Less than one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	104,390	–	104,390
Amounts due from credit institutions	51,281	–	51,281
Insurance premiums receivables	21,191	–	21,191
Receivables from healthcare services	76,714	19,170	95,884
Receivables from sales of pharmaceuticals	25,042	–	25,042
Inventory	202,219	–	202,219
Prepayments	14,597	–	14,597
Current income tax assets	271	–	271
Property and equipment	–	563,636	563,636
Right of use assets	–	81,597	81,597
Goodwill and other intangible assets	–	158,725	158,725
Other assets	5,635	44,601	50,236
Total assets	**501,340**	**867,729**	**1,369,069**
Liabilities			
Accruals for employee compensation	28,169	–	28,169
Insurance contract liabilities	24,117	–	24,117
Accounts payable	174,849	–	174,849
Current income tax liabilities	642	–	642
Lease liabilities	20,693	76,913	97,606
Payable for share acquisitions	6,540	105,453	111,993
Borrowings	92,680	200,132	292,812
Debt securities issued	2,200	92,200	94,400
Other liabilities	20,008	–	20,008
Total liabilities	**369,898**	**474,698**	**844,596**
Net position	**131,442**	**393,031**	**524,473**
Accumulated gap	**131,442**	**524,473**	

35. Risk Management (continued)

Liquidity risk and funding management (continued)

31 December 2019	*Less than one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	18,380	–	18,380
Amounts due from credit institutions	13,588	–	13,588
Insurance premiums receivables	26,892	–	26,892
Receivables from healthcare services	116,964	13,248	130,212
Receivables from sales of pharmaceuticals	17,508	–	17,508
Inventory	174,462	–	174,462
Prepayments	13,245	–	13,245
Current income tax assets	757	–	757
Investment in associate	–	3,481	3,481
Property and equipment	–	671,658	671,658
Right of use assets	–	84,115	84,115
Goodwill and other intangible assets	–	162,247	162,247
Other assets	4,180	41,096	45,276
Total assets	**385,976**	**975,845**	**1,361,821**
Liabilities			
Accruals for employee compensation	27,376	–	27,376
Insurance contract liabilities	25,489	–	25,489
Accounts payable	128,517	–	128,517
Current income tax liabilities	973	–	973
Lease liabilities	17,603	73,188	90,791
Payable for share acquisitions	5,735	90,714	96,449
Borrowings	107,230	162,204	269,434
Debt securities issued	1,951	92,200	94,151
Other liabilities	3,164	16,901	20,065
Total liabilities	**318,038**	**435,207**	**753,245**
Net position	**67,938**	**540,638**	**608,576**
Accumulated gap	**67,938**	**608,576**	

Amounts and maturities in respect of the insurance contract liabilities are based on management's best estimate based on statistical techniques and past experience. Management believes that the current level of the Group's liquidity is sufficient to meet all its present obligations and settle liabilities in timely manner.

The Group also matches the maturity of financial assets and financial liabilities and imposes a maximum limit on negative gaps. The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if notice were to be given immediately.

31 December 2020	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Accounts payable	174,849	–	–	–	174,849
Accruals for employee compensation	28,169	–	–	–	28,169
Debt securities issued	4,753	6,642	111,170	–	122,565
Borrowings	47,472	59,147	210,418	–	317,037
Payable for share acquisition	6,540	–	127,772	–	134,312
Lease liabilities	6,318	18,953	75,810	37,905	138,986
Total undiscounted financial liabilities	**268,101**	**84,742**	**525,170**	**37,905**	**915,918**

31 December 2019	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Accounts payable	128,517	–	–	–	128,517
Accruals for employee compensation	27,376	–	–	–	27,376
Debt securities issued	5,952	6,673	122,865	–	135,490
Borrowings	45,706	71,615	194,878	–	312,199
Payable for share acquisition	5,735	–	120,612	–	126,347
Lease liabilities	5,976	17,331	71,780	38,322	133,409
Total undiscounted financial liabilities	**219,262**	**95,619**	**510,135**	**38,322**	**863,338**

35. Risk Management (continued)

Market risk

Market risk is the risk that the value of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

The Group has exposure to market risks. The Group structures the levels of market risk it accepts through a Group market risk policy that determines what constitutes market risk for the Group.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Group has floating interest rate borrowings linked to LIBOR and NBG short-term loan refinancing rates and is therefore exposed to interest rate risk.

	31 December 2020			*31 December 2019*		
	GEL	**US$**	**EUR**	**GEL**	**US$**	**EUR**
Amounts due from credit institutions	11.5%	4.9%	–	11.5%	4.9%	–
Borrowings	11.6%	5.4%	–	12.4%	5.0%	6.3%

Sensitivity of the consolidated profit or loss is the effect of the assumed changes in interest rates on the interest expense for the year. In 2020 and 2019, sensitivity analysis did not reveal any significant potential effect on the Group's equity. The following table demonstrates sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's consolidated profit or loss:

	31 December 2020		*31 December 2019*	
Currency	*Increase in basis points*	*Sensitivity of interest expense*	*Increase in basis points*	*Sensitivity of interest expense*
GEL	-1.0%	(2,008)	-2.0%	(1,989)
USD	-1.65%	(2,346)	+0.96%	643
GEL	+1.0%	2,008	+2.0%	1,989
USD	+1.65%	2,346	-0.96%	(643)

Currency risk

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's principal transactions are carried out in Georgian Lari and its exposure to foreign exchange risk arises primarily with respect to US Dollar.

The Group's financial assets are primarily denominated in the same currencies as its liabilities, which is the functional currency of the Group entities – Lari. Most of the Group's operations are denominated in Lari too. This fact mitigates the foreign currency exchange rate risk operationally. The main foreign exchange risk arises from US Dollars denominated borrowings that are partially hedged through cash deposits with banks, also denominated in US Dollars and the foreign currency forward contracts with the Group's counterparties. The Group also hedges currency risk component of two of its fixed assets that are intended for disposal through foreign exchange denominated borrowings (Note 3). The hedge was fully effective in 2020. The gross value of foreign exchange fluctuation hedged equalled to GEL 2,415 (2019: GEL 1,128) on both hedged items and hedging instrument.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2020 and 2019 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the profit or loss. A negative amount in the table reflects a potential net reduction in profit or loss, while a positive amount reflects a net potential increase.

35. Risk Management (continued)

Market risk (continued)

Currency risk (continued)

	31 December 2020			
	GEL	*US$*	*EUR*	*Total*
Assets				
Cash and cash equivalents	73,425	29,398	1,567	104,390
Amounts due from credit institutions	12,497	38,784	–	51,281
Receivables from sales of pharmaceuticals	18,698	1,876	4,468	25,042
Other assets: loans issued	5,797	3,765	–	9,562
Total monetary assets	110,417	73,823	6,035	190,275
Liabilities				
Accounts payable	89,552	30,394	54,903	174,849
Accruals for employee compensation	28,109	60	–	28,169
Payable for share acquisitions	99,271	12,722	–	111,993
Insurance contract liabilities	23,728	238	151	24,117
Borrowings	150,686	142,126	–	292,812
Lease liabilities	14,052	81,353	2,201	97,606
Total monetary liabilities	405,398	266,893	57,255	729,546
Net monetary position, before derivatives	(294,981)	(193,070)	(51,220)	(539,271)
Hedge accounting position	–	19,348	–	19,348
Net monetary position including derivatives	(294,981)	(173,722)	(51,220)	(519,923)
% Reasonably possible increase in exchange rate		15.71%	27.09%	
Effect on profit before income tax expense		(27,292)	(13,875)	
% Reasonably possible decrease in exchange rate		-15.71%	-27.09%	
Effect on profit before income tax expense		27,292	13,875	

	31 December 2019			
	GEL	*US$*	*EUR*	*Total*
Assets				
Cash and cash equivalents	17,677	168	535	18,380
Amounts due from credit institutions	9,783	3,805	–	13,588
Receivables from sales of pharmaceuticals	13,885	947	2,676	17,508
Other assets: loans issued/acquired and lease deposit	2,500	11,903	–	14,403
Total monetary assets	43,845	16,823	3,211	63,879
Liabilities				
Accounts payable	57,937	28,763	41,817	128,517
Accruals for employee compensation	26,676	700	–	27,376
Payable for share acquisitions	80,216	16,233	–	96,449
Insurance contract liabilities	24,980	258	251	25,489
Borrowings	183,477	66,631	19,326	269,434
Lease liabilities	8,428	79,775	2,588	90,791
Total monetary liabilities	381,714	192,360	63,982	638,056
Net monetary position, before derivatives	(337,869)	(175,537)	(60,771)	(574,177)
Hedge accounting position	–	16,934	–	16,934
Net monetary position including derivatives	(337,869)	(158,603)	(60,771)	(557,243)
% Reasonably possible increase in exchange rate		12.38%	10.88%	
Effect on profit before income tax expense		(19,635)	(6,612)	
% Reasonably possible decrease in exchange rate		-12.38%	-10.88%	
Effect on profit before income tax expense		19,635	6,612	

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

35. Risk Management (continued)

Operating environment

The Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country and undeveloped debt and equity markets). However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Board, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

36. Fair Value Measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The Group uses the following hierarchy for determining and disclosing the fair value:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy. They also include a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. During 2020 and 2019 there have been no transfers between the levels.

	Level 1	*Level 2*	*Level 3*	*Total fair value 31-Dec-20*	*Carrying value 31-Dec-20*	*Unrecognised gain (loss) 31-Dec-20*
Assets measured at fair value						
Other assets: call option	–	–	28,919	**28,919**	28,919	–
Liabilities measured at fair value						
Payables for share acquisitions: put option	–	–	98,882	**98,882**	**98,882**	–
Payables for share acquisitions: holdback for business acquisitions	–	–	13,111	**13,111**	13,111	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	104,390	-	**104,390**	104,390	–
Amounts due from credit institutions	–	–	51,281	**51,281**	51,281	–
Receivables from healthcare services	–	–	95,884	**95,884**	95,884	–
Insurance premiums receivable	–	–	21,191	**21,191**	21,191	–
Receivables from sales of pharmaceuticals	–	–	25,042	**25,042**	25,042	–
Other assets: loans issued	–	–	9,562	**9,562**	9,562	–
Liabilities for which fair values are disclosed						
Borrowings	–	–	293,874	**293,874**	292,812	(1,062)
Debt Securities issued	–	–	96,876	**96,876**	94,400	(2,476)
Lease liabilities	–	–	97,783	**97,783**	97,606	(177)

36. Fair Value Measurements (continued)

Fair value hierarchy (continued)

	Level 1	*Level 2*	*Level 3*	*Total fair value 31-Dec-19*	*Carrying value 31-Dec-19*	*Unrecognised gain (loss) 31-Dec-19*
Assets measured at fair value						
Other assets: call option	–	–	23,119	**23,119**	23,119	–
Liabilities measured at fair value						
Payables for share acquisitions: put option	–	–	79,480	**79,480**	79,480	–
Payables for share acquisitions: holdback for business acquisitions	–	–	16,969	**16,969**	16,969	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	18,380	-	**18,380**	18,380	–
Amounts due from credit institutions	–	–	13,588	**13,588**	13,588	–
Receivables from healthcare services	–	–	130,212	**130,212**	130,212	–
Insurance premiums receivable	–	–	26,892	**26,892**	26,892	–
Receivables from sales of pharmaceuticals	–	–	17,508	**17,508**	17,508	–
Other assets: loans issued/acquired and lease deposit	–	–	14,403	**14,403**	14,403	–
Liabilities for which fair values are disclosed						
Borrowings	–	–	273,849	**273,849**	269,434	(4,415)
Debt Securities issued	–	–	94,626	**94,626**	94,151	(475)
Lease liabilities	–	–	92,422	**92,422**	90,791	(1,631)

The following is a description of the determination of fair value for financial instruments and property that are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs comprise forward foreign exchange contracts. The applied valuation technique employs a discounted forward pricing model. The model incorporates various inputs including the foreign exchange spot and forward rates.

Call option represents option on acquisition of remaining 33% equity interest in JSC GEPHA from non-controlling interests in 2022 based on pre-determined EBITDA multiple (6.0 times EBITDA) of JSC GEPHA. The Group has applied binomial model for option valuation. Major unobservable input for call option valuation represents volatility of price of the underlying 33% minority share of equity, which was estimated based on actual volatility of company's market capitalisation from 4 August 2017 till 4 August 2020 period, which equalled 46.94%. If the volatility was 10% higher, fair value of call option would increase by GEL 7,372 (2019: GEL 6,804) if volatility was 10% lower call option value would decrease by GEL 7,629 (2019: GEL 7,189). The Group recognised GEL 5,800 (2019: GEL 6,150) unrealised gains on the call option during 2020.

Put option represents option owned by non-controlling shareholders on sale of remaining 33% equity interest in JSC GEPHA to the Group in 2022 based on pre-determined EBITDA multiple (4.5 times EBITDA) of JSC GEPHA. The Group has estimated put option value based on number of unobservable inputs. Major unobservable input for put option valuation represents estimated EBITDA of JSC GEPHA as well as discount rate used to value the option. The Group has applied 11% discount rate to value the option. If the discount rate was 1% higher, fair value of put option redemption liability would decrease by GEL 1,703 (2019: GEL 2,112) if discount rate was 1% lower put option redemption liability value would increase by GEL 1,750 (2019: GEL 2,189).

Movements in level 3 financial instruments measured at fair value

Reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value is as follows:

	1 January 2020	*Remeasurement in equity*	*Payment*	*Remeasurement in profit or loss*	*At 31 December 2020*
Level 3 financial assets					
Call option	23,119	–	–	5,800	28,919
Level 3 financial liabilities					
Payables for share acquisitions: put option	79,480	19,402	–	–	98,882
Payables for share acquisitions: holdback for business acquisitions	16,969	–	(5,925)	2,067	13,111

36. Fair Value Measurements (continued)

Derivative financial instruments (continued)

	1 January 2019	*Remeasurement in equity*	*Payment*	*Remeasure-ment in profit or loss*	*At 31 December 2019*
Level 3 financial assets					
Call option	16,969	–	–	6,150	23,119
Level 3 financial liabilities					
Payables for share acquisitions: put option	71,668	7,812	–	–	79,480
Payables for share acquisitions: holdback for business acquisitions	19,806	–	(6,772)	3,935	16,969

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) as well as for all short-term state receivables it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost is estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on a discounted cash flow analysis using prevailing money-market interest rates for debts with similar credit risk and maturity.

37. Related Party Transactions

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

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

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

	31 December 2020			*31 December 2019*		
	Parent	*Entities under common control***	*Other **	*Parent*	*Entities under common control***	*Other **
Assets						
Insurance premiums receivable	–	952	–	–	1,110	–
Other assets: loans issued	–	–	–	10,251	–	–
Prepayments and Other assets: other	–	34	–	–	549	–
	–	**986**	–	**10,251**	**1,659**	–
Liabilities						
Accounts payable	–	384	–	–	1,027	–
Borrowings*	–	–	–	–	–	6,735
Insurance contract liabilities	–	862	–	–	836	–
Other liabilities: other	–	30	–	–	29	–
	–	**1,276**	–	–	**1,892**	**6,735**

37. Related Party Transactions (continued)

	2020			2019		
	Parent	*Entities under common control***	*Other **	*Parent*	*Entities under common control***	*Other **
Income and expenses						
Net insurance premiums earned	–	1,702	–	–	1,598	–
General and administrative expenses	–	(1,208)	–	–	(1,377)	–
Interest income	609	-	–	608	40	–
Interest expense	–	-	–	–	–	(504)
Net gains from foreign currencies	–	(23)	–	–	72	–
Other operating expenses	–	-	–	–	(101)	–
Other operating income	–	117	–	–	3,026	–
Cost of healthcare services and medical trials	–	(913)	–	–	(1,568)	–
	609	**(325)**	**–**	**608**	**1,690**	**(504)**

* *Borrowings from other parties comprise loans from the minority shareholders and are unsecured*

** *Entities under common control include subsidiaries of Georgia Capital Group PLC since 30 May 2018 and subsidiaries of BGEO Group PLC before 29 May 2018 inclusively; The Group had no transactions with Georgia Capital, only with its subsidiaries. Parent includes Georgia Healthcare Group PLC figures.*

Compensation of key management personnel comprised the following:

	2020	2019
Salaries and cash bonuses	4,896	4,952
Share-based compensation	6,836	7,509
Total key management compensation*	**11,732**	**12,461**

* *Key management personnel represent members of top management.*

38. Events after Reporting Period

In January 2021, 67% owned subsidiary of the Group, JSC GEPHA, declared dividend of GEL 2.5 million, of which GEL 1.675 million is attributable to JSC Georgia Healthcare Group and GEL 0.825 million to non-controlling interest shareholders. Out of the declared amount, GEL 0.29 million was paid to non-controlling interest shareholders during the subsequent period.

In February 2021, JSC Gepha established a new wholly owned subsidiary, JSC Iverta. Its main operations include production and sale of pharmacy and para-pharmacy products. The management of the Group anticipates that newly established subsidiary's EBITDA in 2021 approximately comprises GEL 500. JSC Iverta will operate as a sub-segment of Pharmacy and Distribution business.

Management is closely monitoring the situation around COVID-19 in Georgia and managing stock, liquidity and other activities accordingly.