

**LEPL - Pension Agency**

**Financial statements**

*Prepared in accordance with  
International Public Sector Accounting Standards  
for the period ended 31 December 2019*

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# Independent Auditors' Report

## To the Supervisory Board of LEPL Pension Agency

### Opinion

We have audited the financial statements of LEPL Pension Agency (the "Agency") prepared in accordance with International Public Sector Accounting Standards (IPSASs), which comprise the statement of financial position as at 31 December 2019, the statements of financial performance, changes in net assets, cash flows and comparison of budget and actual amounts for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Agency as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with IPSASs.

### 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Agency in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Matter

The financial statements of the Agency as at and for the year ended 31 December 2018 were audited by other auditors who expressed an unmodified opinion on those statements on 24 May 2019.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Agency'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 Agency or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Agency's financial reporting process.



## Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency'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 Agency's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Agency to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partner on the audit resulting in this independent auditors' report is:

Karen Safaryan

KPMG Georgia LLC  
Tbilisi, Georgia  
29 May 2020



**LEPL Pension Agency**  
Statement of Financial Position as at 31 December 2019

GEL	Notes	31 December 2019	31 December 2018
<b>Assets</b>			
Property and equipment	4	545,969	110,022
Intangible assets		23,433	10,800
Other assets		-	700
<b>Non-current assets</b>		<u>569,402</u>	<u>121,522</u>
 Inventories		 21,225	 2,085
Trade and other receivables		233	-
Cash and cash equivalents		-	3,000
<b>Current assets</b>		<u>21,458</u>	<u>5,085</u>
<b>Total assets</b>		<u>590,860</u>	<u>126,607</u>
 <b>Net assets</b>			
Accumulated surpluses		587,923	126,607
<b>Total net assets</b>		<u>587,923</u>	<u>126,607</u>
 <b>Liabilities</b>			
Trade and other payables		2,937	-
<b>Total liabilities</b>		<u>2,937</u>	<u>-</u>
<b>Total equity and liabilities</b>		<u>590,860</u>	<u>126,607</u>

These financial statements were approved by the Management Board on 29<sup>th</sup> of May 2020 and were signed on its behalf by:

  
Giorgi Chichinadze  
Acting Director



  
Nino Girsiasvili  
Chief Accountant

**LEPL Pension Agency**  
Statement of Financial Performance for 2019

GEL	Notes	<u>2019</u>	<u>2018*</u>
Revenue from non-exchange transactions:			
<i>From State Budget of Georgia:</i>			
- on services and current activities		3,432,146	238,690
- on non-current assets		360,768	138,539
<i>Other transfers:</i>			
- on non-current assets - funding from International Financial Institution		209,549	-
<b>Total revenue from non-exchange transactions</b>		<u><b>4,002,463</b></u>	<u><b>377,229</b></u>
Fees, fines and penalties		1,907	-
Other revenue		154	-
<b>Total revenue</b>		<u><b>4,004,524</b></u>	<u><b>377,229</b></u>
Administrative expenses	5	(1,448,946)	(102,108)
Personnel expenses	6	(1,935,542)	(130,797)
Social expenses		(36,983)	-
Depreciation and amortization	4	(121,737)	(17,717)
<b>Total expenses</b>		<u><b>(3,543,208)</b></u>	<u><b>(250,622)</b></u>
<b>Surplus for the year/period</b>		<u><b>461,316</b></u>	<u><b>126,607</b></u>

\* period from 15 August 2018 (incorporation date) to 31 December 2018.

**LEPL Pension Agency**  
*Statement of Changes in Net Assets 2019*

<b>GEL</b>	<u><b>Net assets</b></u>
As of 15 August 2018	-
Surplus for the period*	<u>126,607</u>
<b>As of 31 December 2018</b>	<b><u>126,607</u></b>
Surplus for the year	<u>461,316</u>
<b>As of 31 December 2019</b>	<b><u>587,923</u></b>

\* period from 15 August 2018 (incorporation date) to 31 December 2018.

**LEPL Pension Agency**  
Statement of Cash Flows for 2019

<b>GEL</b>	<b>2019</b>	<b>2018*</b>
<b>Cash flows from operating activities</b>		
Surplus for the year/period*	461,316	126,607
<i>Adjustments</i>		
Funding from International Financial Institution	(209,549)	-
Depreciation and amortisation	121,737	17,717
Increase in inventory	(19,140)	(2,085)
Decrease in other assets	700	(700)
Increase in trade and other receivables	(233)	-
Increase in trade and other payables	2,937	-
<b>Net cash received from the operating activities</b>	<b>357,768</b>	<b>141,539</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment and intangible assets	(360,768)	(138,539)
<b>Net cash used in investing activities</b>	<b>(360,768)</b>	<b>(138,539)</b>
Decrease in cash and cash equivalents	<b>(3,000)</b>	<b>3,000</b>
Cash and cash equivalents, beginning	3,000	-
<b>Cash and cash equivalents, ending</b>	<b>-</b>	<b>3,000</b>

\* period from 15 August 2018 (incorporation date) to 31 December 2018.

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 10 to 16.



**LEPL Pension Agency**  
Statement of Comparison of Budget and Actual Amounts received from GoG

GEL	<u>Budget</u>	<u>Actual cash flows from Treasury account</u>	<u>Performance difference between budget and actual cash flow</u>	<u>Actual accrual in the statement of the financial performance</u>	<u>Performance difference between actual accrual and actual cash flows</u>
<b>2019</b>					
Funding from the State Budget (Revenue from non-exchange transactions)	3,800,000	3,792,914	0.19%	3,792,914	-
Expenses	(3,375,450)	(3,432,146)	(1.65%)	(3,543,208)	111,062
<i>which includes:</i>					
Salary expenses	(1,935,600)	(1,935,385)	0.01%	(1,935,542)	157
Increase in non-financial assets	(424,550)	(360,768)	17.68%	n/a	n/a
<b>2018 *</b>					
Funding from the Budget (Revenue from non-exchange transactions)	398,331	377,229	5.6%	377,229	-
Expenses	(258,500)	(238,690)	7.7%	(250,623)	11,933
<i>which includes:</i>					
Salary expenses	(150,000)	(130,798)	12.8%	(130,798)	-
Increase in non-financial assets	(138,831)	(138,539)	0.9%	n/a	n/a

\* period from 15 August 2018 (incorporation date) to 31 December 2018.

## **1. Reporting entity**

LEPL – Pension Agency (hereafter the “**Agency**”) was established on 15 August 2018 as a legal entity of public law in accordance with the Law of Georgia on Funded Pensions (the “**Law**”) adopted on 6 August 2018 and the Decree of the Government of Georgia #421 dated 15 August 2018 “On the approval of the charter of the Legal Entity of Public Law – Pension Agency”. The Agency is an independent legal entity of public law.

These financial statements are prepared solely for the Agency, established for the purposes of management and administration of the pensions saving scheme (the “**Pension Scheme**”). Financial statements for the Pension Scheme, which comprises of the Pension Assets (as this is defined by the Law) of the participants of the Pension Scheme and which is managed by the Agency, are prepared separately from these financial statements.

The management bodies of the Agency are, the Supervisory Board, the Investment Board and the Director. Director is responsible for uninterrupted operations of the Agency, which includes, but is not limited to management of the process of collection of pensions’ contributions from the participants of the Pension Scheme. The Investment Board, which is composed of the members appointed by the Parliament of Georgia, is principally responsible for elaboration of the Investment Policy Document and monitoring of compliance of the investment activities, carried out by the Chief Investment Officer and the Investment Service of the Agency, with the Investment Policy Document. The Agency’s operations are supervised by the Supervisory Board, except for its investment activities, which is regulated by the National Bank of Georgia (the “NBG”). As per the Law, the Supervisory Board members of the Agency are the Minister of Finance, the Minister of Economy and Sustainable Development of Georgia, the Minister of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs of Georgia and the Chairman of the Investment Board of the Agency.

The principal activities of the Agency are implementation, management and administration of the Pension Scheme, which, in accordance with the Law, came into force starting from 1 January 2019.

The Agency’s registered legal address is 7b, Kipshidze str., Tbilisi, Georgia.

Related party transactions are disclosed in note 8.

## **2. Basis of preparation**

### **(a) Statement of compliance**

The accompanying financial statements are prepared in accordance with International Public Sector Accounting Standards (IPSAS).

### **(b) Basis of measurement**

The accounts have been prepared on an accruals basis, under the historical cost convention.

### **(c) Functional and presentation currency**

These financial statements are presented in Georgian Lari (GEL), which is also the Agency’s functional currency, as, being the national currency of Georgia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. All amounts has been presented in GEL, except when otherwise indicated.

### **3. Significant accounting policies**

#### **(a) Revenue from non-exchange transactions**

Revenue from non-exchange transactions compose funds received from the State Budget of Georgia (hereafter the “Budget”) and noncash transfers from other international financial institutions. The noncash transfers are purchase of assets (including property and equipment) on behalf of the Agency on what they have not received cash and rather received asset directly from the international financial institution.

The Agency recognises the revenue from non-exchange transactions on non-current assets (Property and equipment and intangible assets) when the transaction event occurs and the respective asset recognition criteria is met.

Revenue from non-exchange transactions on non-current assets are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Agency and the fair value of the asset can be measured reliably.

Revenue from non-exchange transactions on services and current activities is recognised for financing of (i) day-to-day services (salary, expenses under temporary employment agreements, rent expenses, etc) which is recognised as expenses in the same period when they occur; (ii) services in-kind, which meets definition of an asset, but are immediately consumed, and transaction of equal value is recognised as an expense to reflect consumption of these services in-kind.

Revenue from non-exchange transactions are measured at transactions’ market value at the point when transactions occurred.

#### **(b) Salary**

The Agency recognises the expenses related to remuneration of its employees based on the approved list of employees as salary expenses in the statement of financial performance. Such expenses comprise salaries, salary premiums and bonuses. Expenses related to the individuals hired under temporary employment agreements are recognised as general and administrative expenses in the statement of financial performance.

#### **(c) Property and equipment**

Property and equipment are carried at cost, excluding costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins on the acquisition date, which is also the date from which the asset is available for use.

Depreciation on items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

Computers and communication equipment	4.8%-13%;
Furniture, fixtures and office equipment	10%-20%;
Leasehold improvements	33%.

Costs related to repairs and renewals are charged when incurred and recognised in the statement of financial performance, unless they qualify for capitalization.

**(d) Intangible assets**

Intangible assets acquired are measured on initial recognition at cost. 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 life of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

**(e) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of financial performance on a straight-line basis over the period of the lease.

**(f) Cash at bank**

Cash at bank represent highly liquid assets which are subject to insignificant risk of changes in value.

**(g) Inventory**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(h) Taxation**

The legal type of Agency is LEPL which does not perform any economic activities, hence according to Tax code of Georgia the Agency's activities are exempt from income and property taxes and value added taxes.

**(i) Budget information**

The annual budget of the Agency is prepared on the cash basis and approved by the Director of Agency with prior approval of the Supervisory Board of the Agency, which then is reflected in the State Budget in accordance with established rules and procedures.

As the financial statements and the annual budget of the Agency are prepared on different basis, there are presentation differences that require reconciliation between amounts as presented in the statement of cash flows, statement of comparison of budget and actual amounts and statements of financial performance. Presentation differences concern differences in the format and classification schemes the statement of cash flows, statement of comparison of budget and actual amounts and statements of financial performance.

#### 4. Property and equipment

GEL	Computer and communication equipment	Furniture, fixtures and office equipment	Leasehold improvements	Total
<b>Cost</b>				
As at 15 August 2018	-	-	-	-
Additions	59,909	54,560	12,070	126,539
<b>As at 31 December 2018</b>	<b>59,909</b>	<b>54,560</b>	<b>12,070</b>	<b>126,539</b>
As at 1 January 2018	59,909	54,560	12,070	126,539
Additions	477,110	41,581	36,256	554,947
<b>As at 31 December 2019</b>	<b>537,019</b>	<b>96,141</b>	<b>48,326</b>	<b>681,486</b>
<b>Accumulated Depreciation</b>				
As at 15 August 2018	-	-	-	-
Depreciation charge for the period	11,114	5,282	121	16,517
<b>As at 31 December 2018</b>	<b>11,114</b>	<b>5,282</b>	<b>121</b>	<b>16,517</b>
As at 1 January 2019	11,114	5,282	121	16,517
Depreciation charge for the year	103,996	9,553	5,451	119,000
<b>As at 31 December 2019</b>	<b>115,110</b>	<b>14,835</b>	<b>5,572</b>	<b>135,517</b>
<b>Net Book Value</b>				
<b>As at 31 December 2018</b>	<b>48,795</b>	<b>49,278</b>	<b>11,949</b>	<b>110,022</b>
<b>As at 31 December 2019</b>	<b>421,909</b>	<b>81,306</b>	<b>42,754</b>	<b>545,969</b>

#### 5. Administrative expenses

GEL	2019	2018*
Expenses under temporary employment agreements	635,421	45,725
Marketing expenses	282,526	4,870
Rent expenses	238,647	-
Communication expenses	64,852	-
Other assets consumption	63,280	34,363
Consulting and legal fees	43,121	-
Inventory consumption	32,211	-
Utility expenses	18,790	-
Representative expenses	12,098	-
Maintenance expenses	4,990	8,350
Other	53,010	8,800
	<b>1,448,946</b>	<b>102,108</b>

\* period from 15 August 2018 (incorporation date) to 31 December 2018.

Rent expenses are operating leases for the remaining lease term of 2 years as at 31 December 2019. Details are presented below:

GEL	Not later than 1 year	1-5 years	More than 5 years
Minimum lease payments	313,136	354,538	-

## 6. Personnel expenses

	<u>2019</u>	<u>2018</u>
<b>GEL</b>		
Salaries and social security contributions	1,935,542	130,798
	<u><b>1,935,542</b></u>	<u><b>130,798</b></u>

The average number of employees of the Agency during 2019 was 46 (2018: 7).

## 7. Reconciliation of cash flows on comparable basis to the budget

The reconciliation of between the actual cash flows on a comparable basis as presented in the statement of comparison of the Agency's budget and actual amounts and the actual amounts presented in the statement of cash flows are presented below:

<b>GEL</b>		
<b>2019</b>	<b>Net cash received (used in) from the operating activities</b>	<b>Net cash used in investing activities</b>
Revenue from non-exchange transactions	3,792,914	-
Expenses	(3,432,146)	-
Increase in non-financial assets	-	(360,768)
Change in cash and cash equivalents in the statement of financial position	(3,000)	-
<b>Actual amounts received/(used in) in the statement of cash flows</b>	<u><b>357,768</b></u>	<u><b>(360,768)</b></u>
<b>GEL</b>		
<b>2018*</b>	<b>Net cash received (used in) from the operating activities</b>	<b>Net cash used in investing activities</b>
Revenue from non-exchange transactions	377,229	-
Expenses	(238,690)	-
Increase in non-financial assets	-	(138,539)
Presentation differences	3,000	-
<b>Actual amounts received (used in) in the statement of cash flows</b>	<u><b>141,539</b></u>	<u><b>(138,539)</b></u>

\* period from 15 August 2018 (incorporation date) to 31 December 2018.

## 8. Contingencies

### Litigation

In the ordinary course of business, the Agency is subject to legal actions, litigations 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.

## **9. Related parties**

The Agency regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence on the Agency. During 2019 the Agency received financing from GoG of GEL 3,792, 914 (2018: GEL 377,229), which was expensed in relation to: GEL 3,432,146 (2018: GEL 328,690) for administration works of the Pension Scheme and GEL 360,768 (2018: GEL 138,538) purchase of assets.

Members of key management are regarded as related parties. Key management personnel as of 31 December 2019 comprise 4 members of the Supervisory Board, 5 members of Investment Board and Director of the Agency.

For the year ended 31 December 2019, remuneration of the members of the key management personnel comprised base salaries totalling GEL 460,257 (period ended 2018: GEL 52,500) which are included in expenses incurred during the year. The Supervisory Board members of the Agency do not receive any remuneration in exchange for their membership.

## **10. Subsequent events**

### **COVID-19**

On 11 March 2020, the World Health Organisation (WHO) declared the COVID-19 coronavirus pandemic. The first case in Georgia was officially reported on 26 February 2020. As measures against spreading of the virus, Government of Georgia imposed various restrictions over activities within the country. The restrictions imposed at various times include ban on all cross-border travel, restriction over all travel within the country during specific hours (curfew), closing of all public transport, stopping all commercial activity except those which can be done distantly from home as well as except specific business (groceries, pharmacies, commercial banks, gas stations, post offices etc.).

The restrictions imposed by Government of Georgia do not apply to any of the Agency's operations. The Government of Georgia have stated, through public networks, that despite the economic difficulties in the country the assets of the Pension Scheme are ownership of the population of Georgia and will not be used for fulfilment of other liabilities of the Government.

In the beginning of 2020, Investment Board of the Agency elaborated investment policy document for cash and cash-like instruments of the Pension Scheme, which has been duly approved by NBG in terms of compliance with the Law and finally approved by the Director of the Agency in accordance with the Law.

Interim chief investment officer (CIO) appointed by the Supervisory Board with respective nomination by the Investment Board, in accordance with the above referred policy and with respective approval of the Investment Board adopted decision on investment of the Pension Assets in Certificates of Deposit (the "CDs") of Georgian commercial banks and term deposits. As a result of such decision, Pension Assets amounting to GEL 575 million were invested in CDs issued by 6 Georgian commercial banks and GEL 15 million in term deposit of also one Georgian commercial bank. Average interest rate of such instruments amounts to annual 14.8 %, while tenure ranges from 2 to 5 years.

In April 2020, with respective nomination by the Investment Board, the Supervisory Board adopted decision on appointment of CIO.

## **11. New standards and interpretations not yet adopted**

Following new standards are effective for annual periods beginning after 1 January 2022, earlier application is permitted:

- IPSAS 41 – *Financial instruments*,
- IPSAS 42 – *Social Benefits*.

The Agency has not early adopted the new or amended standards in preparing these financial statements.

The new standards are not expected to have a significant impact on the Agency's financial statements.