Management Report and
Financial Statements
2021

Make asset financing **fast** and **simple**

TBC LEASING

Contents

AT A GLANCE

WHO WE ARE?

CONTRIBUTING TOWARDS ECONOMIC GROWTH OF GEORGIA BY OFFERING INNOVATIVE, FLEXIBLE AND CUSTOMIZED ASSET FINANCING SOLUTIONS

With 18 years of operations history, we are leading the underpenetrated leasing industry in Georgia with 76.5% market share, serve up to 2,200 customers and manage the leasing portfolio of GEL 254 million.

We lead the market by offering a wide range of leasing solutions and other complementary advisory services including financial leasing, operating leasing, and sale and leasebacks to corporates, SMEs, start-ups and individuals. Our combination from asset finance solutions to technical know-how and the specialist knowledge enables us to offer an all-round service to our clients.

Our customers can increase production capacity with a minimum participation without additional collateral, allowing them to concentrate and direct their resources on their core competencies. Our solutions mainly comprise financial and operating leases for various types of assets.

We strive to deliver on our mission in order to make asset financing fast and simple through offering comprehensive financial instruments tailored to our client's needs thereby supporting continuing development of the Georgian leasing market and thus contributing to a country's economic growth.

TBCL's market-leading position, its unique business model with significant sales channels synergy advantage, and its experienced team, make it a compelling investment story.

MARKET LEADER ON EACH SEGMENT IN GEORGIA

- The largest Business lease provider on the market with 80% market share
- The largest Automotive lease provider on the market with 69% market share
- The largest Retail lease provider on the market with 68% market share

UNIQUE BUSINESS MODEL WITH VENDOR AND SALES CHANNEL SYNERGIES

- Cooperation with top international equipment vendors and car dealers facilitating efficient and early access to customers, thus ensuring broad sales coverage
- Presence of customer pathway and referral synergies from the parent
- Leading leasing company in attracting international capital with continuing support from largest International Financial Institutions and Development Financial Institutions

LONG-TERM HIGH GROWTH OPPORTUNITIES

- Favourable business/tax environment, non-regulated market
- Georgia private sector credit-to GDP stands at 80%[1], volume of the SME loan portfolio has increased almost six fold since 2011 and 26%[2] of bank loans are provided to SMEs reflecting a favourable economic activity in the country;
- According to the EIB Bank Lending Survey, a significant level of loan rejections persists in the Georgian market. Lack of eligible collateral and riskiness of the clients reflects the inability of firms to comply with banks' requirements – making leasing more attractive way of financing.
- Capacity-wise Georgian leasing market has substantial room for growth

[1] World Bank
[2] National Bank of Georgia ("NBG")

KEY HIGHLIGHTS

In 2021, company achieved strong financial results, through diversified earning streams, improved employee and customer experience and increased market share.

GEL 12.1 mln

NMF

NET INCOME

29.5%

NMF

RETURN ON AVERAGE EQUITY

3.2%

+4.0 PP Y-O-Y

RETURN ON AVERAGE ASSETS

51.9%

-19.1 PP Y-O-Y

COST TO INCOME

2.1%

-1.9 PP Y-O-Y

COST OF RISK

13.4%

+5.1 PP Y-O-Y

NET INTEREST MARGIN

MANAGING POST-COVID ENVIRONMENT FOR STABILIZING PORTFOLIO QUALITY AND NPLs, HANDLING HIGH STAFF TURNOVER AND RECOVERY OF WORK-LIFE BALANCE FOR OUR EMPLOYEES, MAINTAINING LEADING LEASING MARKET POSITION AND FITCH's CREDIT RATING, COST OPTIMIZATION AND RECOVERY OF COMPANY'S STRONG PROFITABILITY PERFORMANCE FOR 2021 FINANCIAL YEAR.

ABOVE MENTIONED ACHIEVEMENTS TRANSFORMED TO ROBUST FINANCIAL RESULTS:

29.5%

RETURN ON AVERAGE EQUITY

GEL 12.1 MLN

NET INCOME

Russian-Ukrainian war and the adverse implications of the military actions for the Ukrainian people, has direct effect not only on our economy, but on our people as well. We hope that this war will come to an end and the parties will arrive at a peaceful solution in the nearest future. We are closely monitoring the developments in Ukraine and are assessing its possible impacts on the Georgian economy and our operations under different scenarios. The resilience of the Georgian economy and our diversified business model gives us the assurance that we will be able to steer the company successfully though these challenging times.

SUMMARY OF THE YEAR

2021 financial year was a year of post-pandemic implications and challenges. While in 2020, main target of the company was to support customers and help them survive through pandemic crisis, in 2021 we aimed at maintaining market share, diversification of portfolio through new products and segments and stabilization of portfolio quality and staff turnover.

Beside above-mentioned targets, main challenge that was addressed during the year was overdue leases, arising from pandemic grace period payments. Through detailed analysis of customers financial needs and abilities and day to day coordination with them, company managed to maintain all quality indicators close to normal level of the business, non performing lease ratio stood at 4.9%.

Due to instability on the market employee turnover was a challenge for the company In 2021 financial year. Company was able to maintain key staff and specifically middle management and through their effort and experience company was able to reach its strategic goals. Company management is constantly monitoring and prioritizing reducing of staff turnover in the company.

We continue to be a market leader, with market share of more than 75%. In 2021, new products for the Georgian leasing market were introduced, such as: commercial real estate leasing, operating leasing for heavy equipment, scooter financing. Product diversification and development ensured the further growth of our market share.

In 2021, FITCH revises TBC Leasing's outlook and affirmed company's Long-Term Issuer Default Rating (IDR) at 'BB-', with a Stable Outlook, thus TBC Leasing has highest FITCH rating among NBFI's. Another memorable achievement of 2021 was the winning of the Best Annual Report and Transparency Award, BARTA 2021.

Furthermore, to ensure the maximum safety of our customers and employees, we ran a wide-scale campaign to encourage our staff to get vaccinated. As a result, around 95% of all our employees were vaccinated.

MACROECONOMIC ENVIRONMENT AND EXPECTATIONS

The Georgian economy demonstrated a firm recovery in 2021. For the full year, real GDP growth reached 10.4% according to the National Statistics Office of Georgia, which was an exceptional performance. Importantly, this growth was broad-based and was reflected in almost all sources of inflows as well as in domestic demand, only FDI lagged behind, as investment demand takes longer to recover. Domestic demand was fuelled by the normalization of saving levels after pandemic related highs and by low US$ deposit rates, while the appreciation of the GEL in the second half of the year led to improved consumer and business sentiment. Furthermore, the 18% expansion in lending also provided much needed support to the economic recovery. While the Georgia economy entered 2022 with strong momentum, the current events in Ukraine and their impact on the global economy are likely to make 2022 a challenging year.

STRONG FINANCIAL RESULTS

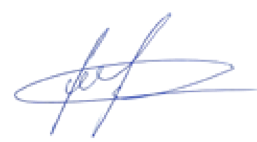
In 2021, our net lease income amounted to GEL 25.7 million, up by 70% year-on-year, driven by an increase in interest income and decrease in interest expense. The increase in the interest income was related to a higher yield of 22.8%, compared to 16.7% in 2020, while decrease in interest expense was based on improved cash and liquidity management. Despite hikes in NPLs, our robust income streams were further supported by strong performance on the asset side across all segments, with the cost of risk standing at minus 2.1% in 2021, compared to 4.0% in 2020. Cost to income ratio stood at 51.9% in 2021, significantly improved from 2020 results of 70.9%, which was driven by improved NIM of 13.4% in 2021 and efficient management of FX operations. As a result, we recorded a return on equity of 29.5% and return on assets of 3.2% for the full year 2021.

Strong income generation, coupled with prudent management of our capital, allowed us to maintain strong capital positions. Our Tier 1 and Total Capital ratios stood at 14.7%, and 25.1%, respectively, and remained comfortably above the minimum requirements from our lenders.

PERSPECTIVES

Outstanding results for 2021 is a sign that our team is on the right track and strategy is working. While business leases will remain core to our strategy, we are targeting on increasing our presence in retail segment. We are planning on achieving: ROE of above 20%, a cost to income ratio below 55% and annual loan growth of around 15-20%. Nevertheless, we realize that the current events in Ukraine will have a negative impact on Georgian economy and impose challenges on our operations, respectively stabilization of portfolio quality and staff turnover will be top strategic goals of the company.

I would like to close my letter by thanking our colleagues for their hard work and dedication and recognizing their individual contributions to our success. We have an exciting journey ahead of us and I am eagerly looking forward to it.



Gaioz Gogua
CEO
31 May, 2022

INDUSTRY AND MARKET OVERVIEW

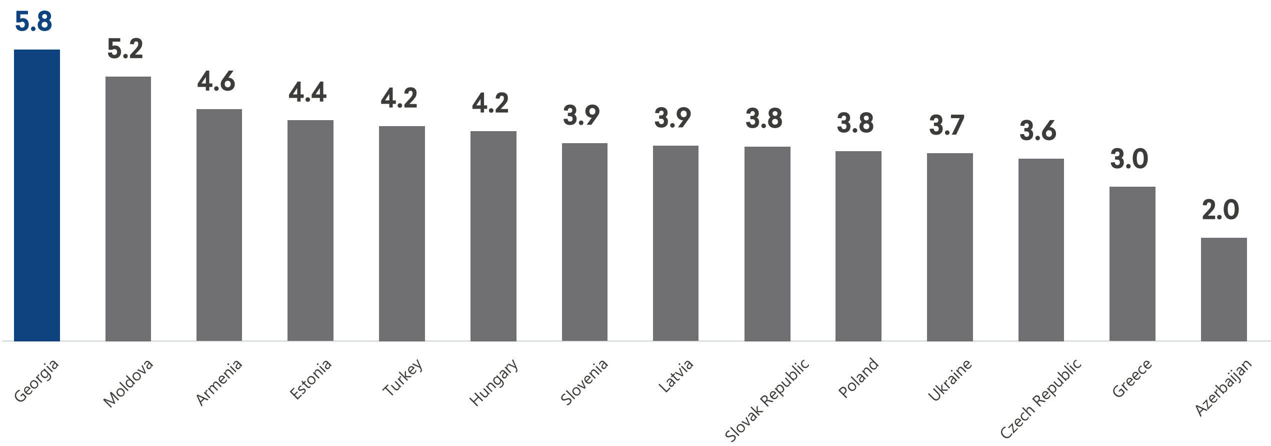
COUNTRY'S ECONOMIC OVERVIEW

Georgia has one of the fastest developing economies in the region. Georgia's economy expanded rapidly during the pre-pandemic period, growing at a robust compounded annual growth rate of 8% over last five years. Responsible macro policies, intensifying global integration, sound public investments, an attractive business environment, improving governance, and rising public spending underpinned the progress.

According to IMF projections real GDP growth is expected to be on average 5.8%[3] during 2021–2026 year period.

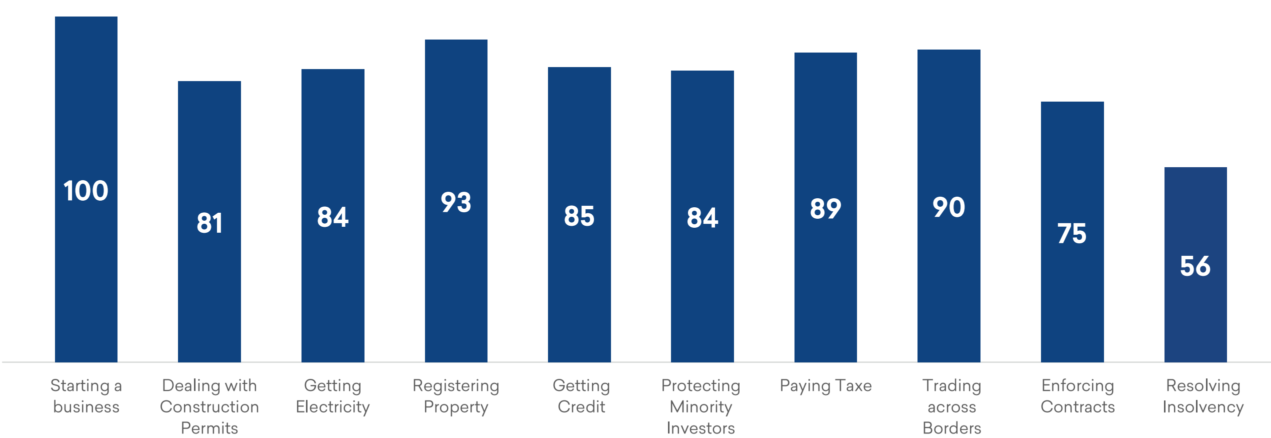
ONE OF THE FASTEST DEVELOPING ECONOMIES IN THE REGION

Real GDP Growth by countries | 2021-2026



Georgia is ranked as one of the best performers in Doing Business 2020 indicators and is ranked 7th with a score of 83.7 - which is above the regional averages in almost all rankings on Doing Business topics. Furthermore, Georgia's Economic Freedom score measured by the Heritage Foundation is 71.8 - making its economy the 26th freest in the 2022 Index out of 177 countries. Georgia is ranked 18th among 45 countries in the Europe region, and its overall score is above the regional (69.5) and world averages (60.0).

Rankings on Doing Business



[3] Source: IMF World Economic Outlook 2022

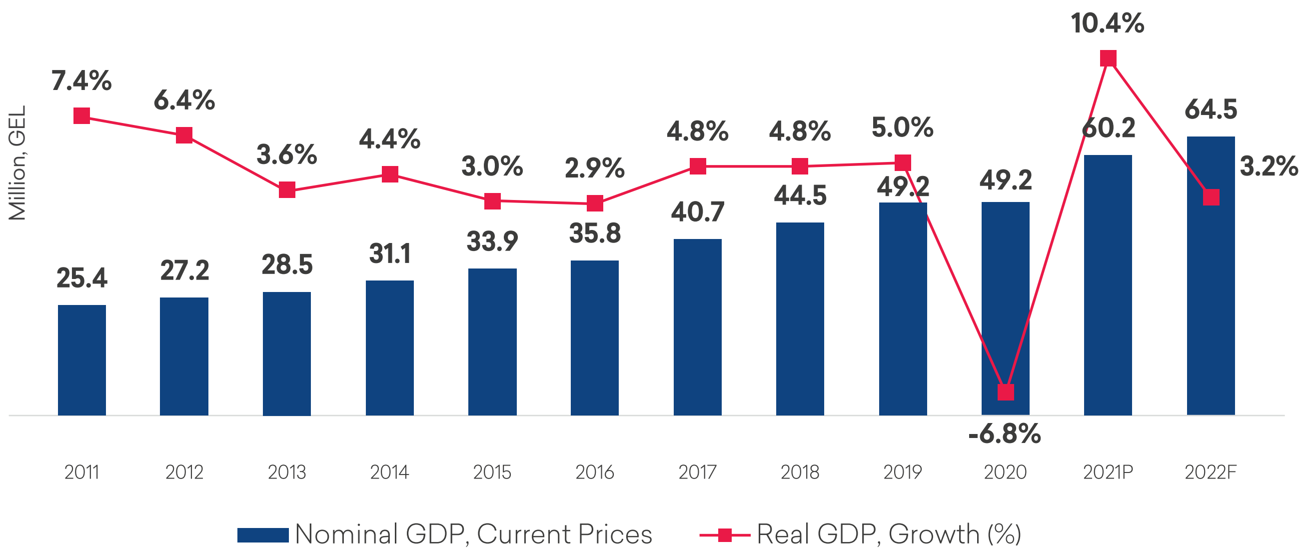
Georgia has 14 preferential trade agreements in force. The Association Agreement with the European Union (EU) signed in 2016, including a Deep and Comprehensive Free Trade Area preferential trade regime, free trade agreements with major trade partners, such as the EU and China, position Georgia well to attract foreign direct investments. FTA with China, effective from January 2018, and FTA with Hong Kong, effective from February 2019, increase opportunities to further accelerate exporting markets and to attract investors by offering a business-friendly environment, high governance and access to a market of three billion customers without customs duties. Visa-free travel to the EU, granted to Georgian passport-holders in March 2017, is another major success of the Georgian foreign policy.

2021 ECONOMIC UPDATE

Starting in the second quarter of 2021, pandemic-related restrictions were gradually eased. After the pandemic-induced recession the Georgian economy has been rebounding at a remarkable speed.

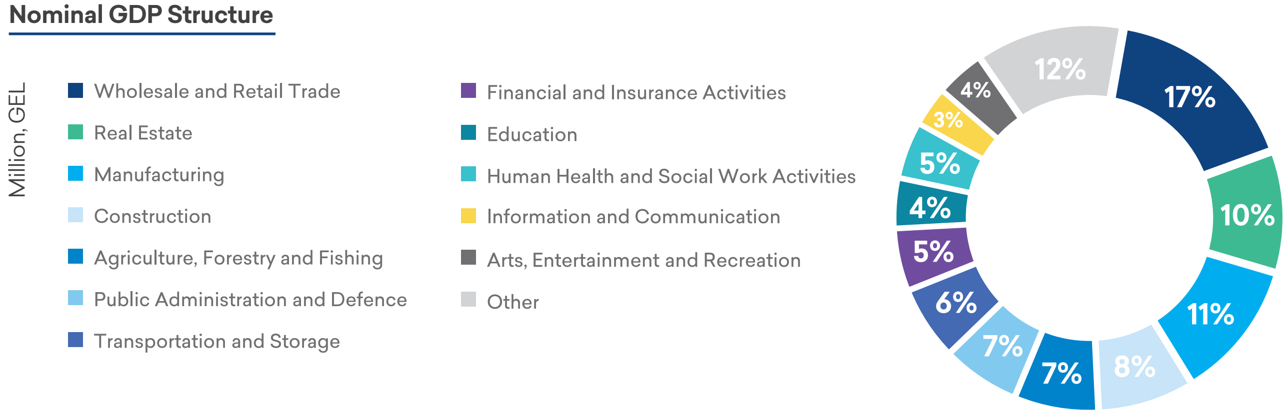
For the full year 2021, the Georgian economy expanded with the real GDP growth rate of 10.4%[4], surpassing the 2019 nominal GDP level by 2.9%[4]. In 2021, nominal GDP in the second, third and fourth quarters exceeded the levels of the same periods in 2019 by 10.2%[4], 1.6%[4] and 0.8%[4] respectively. This upsurge is significantly due to the baseline effect and the realization of the delayed demand as well as an increase of the economic activity in the region.

Nominal GDP and Real GDP Growth Rate



BROAD-BASED AND DIVERSIFIED NOMINAL GDP STRUCTURE

Nominal GDP Structure



[4] Source: Geostat

Since Georgia has a high dependence on imported food, raw materials and fuel, increased commodity prices on international markets, higher utility tariffs along with GEL depreciation have pushed inflation above the target of 3% and spiked up to 12.3% - the highest over the decade. In response, the central bank has gradually been increasing its policy rate from 8% in the beginning of the year to 10.5% at the end of 2021.

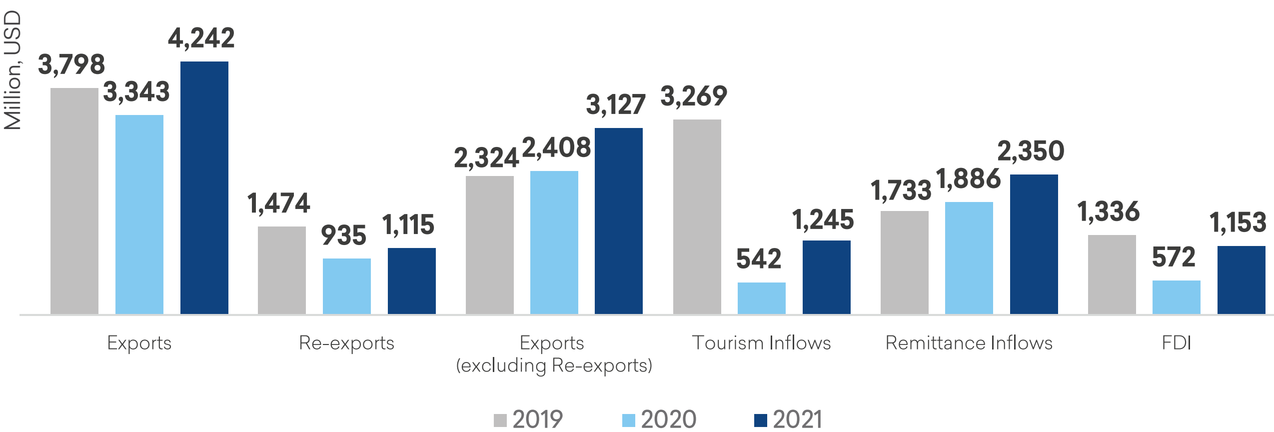
In 2021, external inflows recorded a robust performance. During the year, exports of goods increased by 26.9%[4] and 11.7%[4] compared to 2020 and 2019 respectively. Imports of goods also went up by 25.5%[4] y-o-y in 2021 and by 6.1%[4] compared to 2019. Importantly, the rebound of the trade in goods was broad based, reflecting overall increased external and domestic demand.

Remittance inflows performed steadily during 2021, increasing by 24.0%[5] y-o-y and by 35.9%[6] compared to 2019.

During 2020, when the economy was operating under severe constraints, the tourism sector received a particularly big shock. From 2021, the tourism sector has started gradual recovery. Revenues from tourism started to post y-o-y growth from the second quarter of 2021 and trend was maintained in rest of the periods. Revenue from tourism in 2021 totalled USD 1,245[6] million (up by 130% y-o-y) which was 38.1% of 2019 level.

FDI inflows are taking longer to recover. While they increased 3.2% year-on-year for the full year 2021, this was on the back of higher reinvested earnings as equity and FDI-related debt financing declined sharply in the same period.

External Inflows



[4] Source: Geostat
[5] Source: NBG
[6] Source: Financing in Georgia: Small and medium enterprises and the private sector 2019

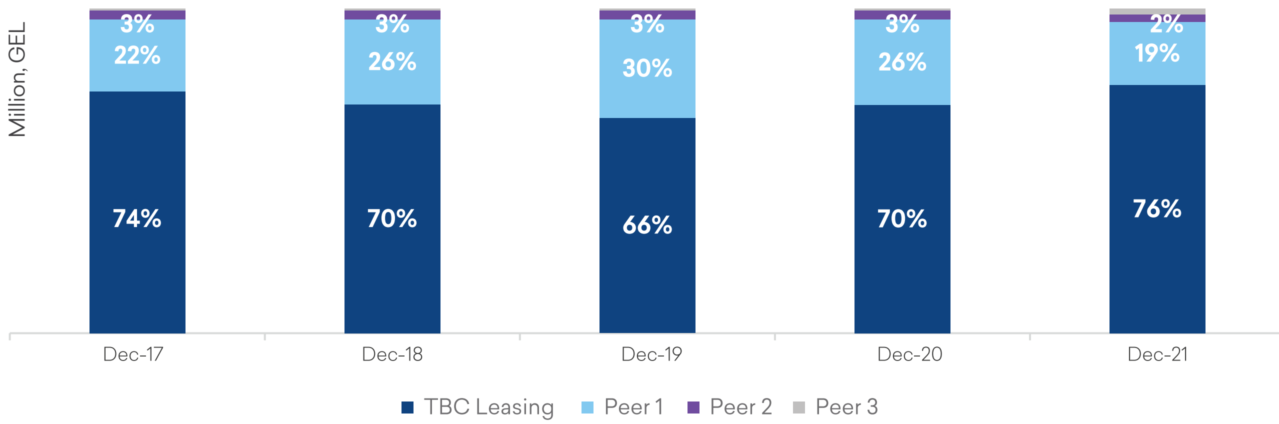
INDUSTRY AND MARKET OVERVIEW

Georgian leasing industry is dominated by three main companies with the focus on large and SME Institutions while retail leasing market is largely unexploited.

During the last three years, three companies have entered Georgian leasing market and international leasing company which serves only retail customers is planning to enter the market in near future. In terms of market share we maintain our position as a market leader and hold 76.5% of the market as of December 2021.

LEADER IN GEORGIA WITH ESTABLISHED #1 MARKET POSITION

Market Share Dynamics

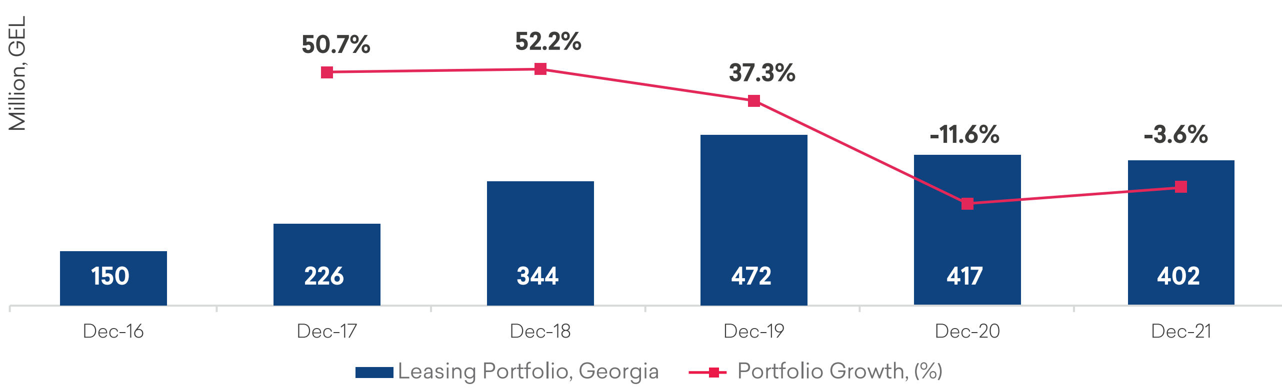


Georgian leasing industry is at its early stage of development and the development trend generally follows the local economic development tendency. The Leasing industry in Georgia currently represents c.1% of the country's GDP, with a leasing portfolio of GEL c.500 million. Considering that the share of leasing in GDP in peer countries is around 5%, the Georgian leasing sector has substantial room for growth, which in the case of Georgia means a portfolio of 3.4 billion GEL by 2024, or market potential of GEL 2.5 billion. The leasing industry in Georgia is developing rapidly and becoming increasingly competitive.

During last five years' Georgian leasing market posted c.22% CAGR. The foremost reason behind the double-digit growth of the sector is that the awareness of leasing products as an alternative way of financing has substantially increased among SME's, which in fact is a main target client group for leasing products.

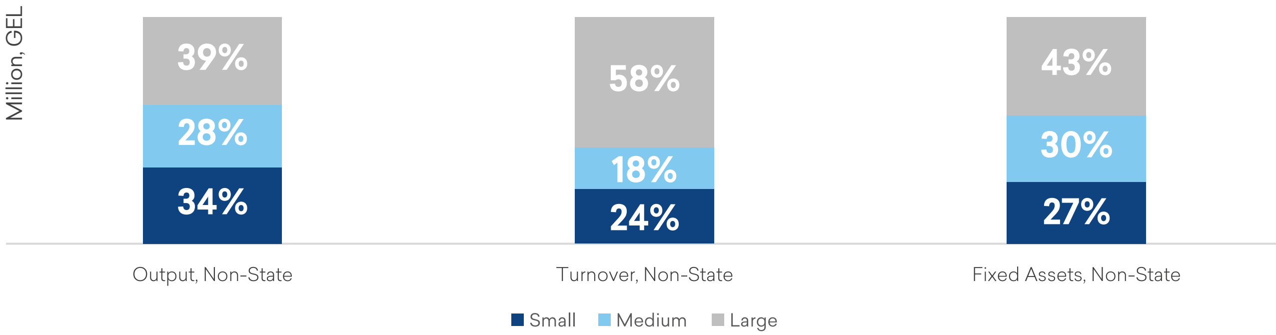
GROWTH IN LEASING MARKET EXPECTED TO CONTINUE

Leasing Market Dynamics



SMES DOMINATE THE ENTERPRISE LANDSCAPE OF GEORGIA AND ACCOUNT FOR 62% OF TOTAL PRODUCTION VALUE AND 42% OF TURNOVER IN PRIVATE SECTOR.

Output, Turnover, Fixed Assets distribution among SMEs and Large Enterprises

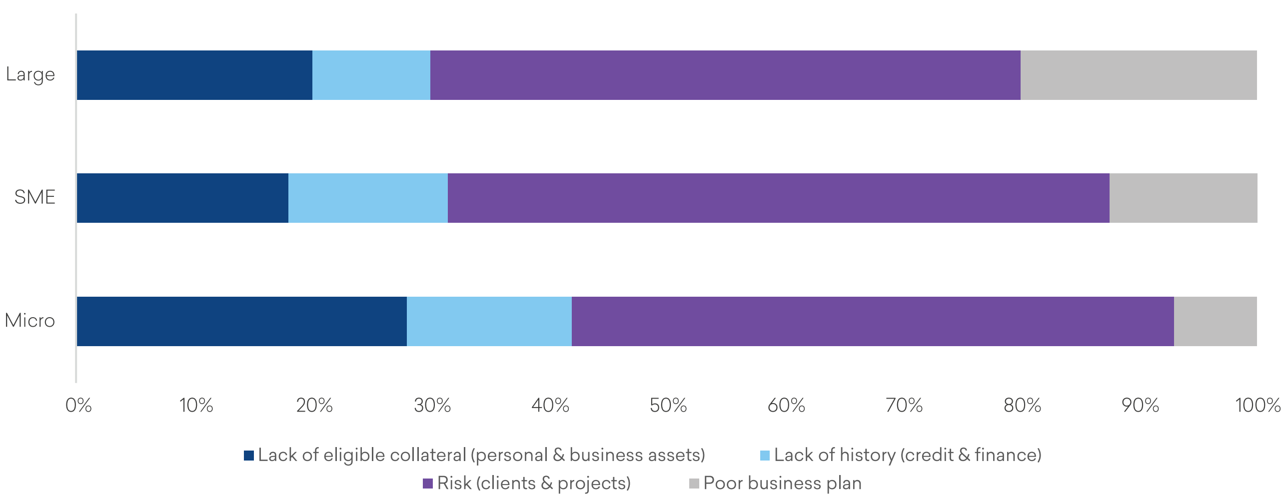


According to European Investment Bank research report, access to funds among SMEs still remains one of the main limitations for SME development in Georgia. The main reasons for rejecting applications are lack of eligible collateral, lack of credit history, riskiness of project and poor business plans.

Notably, the riskiness of projects is the main reason for rejecting loan applications by banks in SME segment. The lack of eligible collateral also reflects the inability of SME's to comply with banks' collateral requirements. Due to the highly leveraged nature of Georgian businesses, banks usually request additional collateral (property/real estate), businesses do not have unlimited source of additional collateral to serve their funding needs.

Therefore, leasing becomes a reasonable alternative way of financing for MSME as well as corporate clients, since in the majority of cases no additional collateral is required as the leased asset itself serves as the main form collateral, because the legal title is on leasing company.

Reasons for Loan Application Rejections

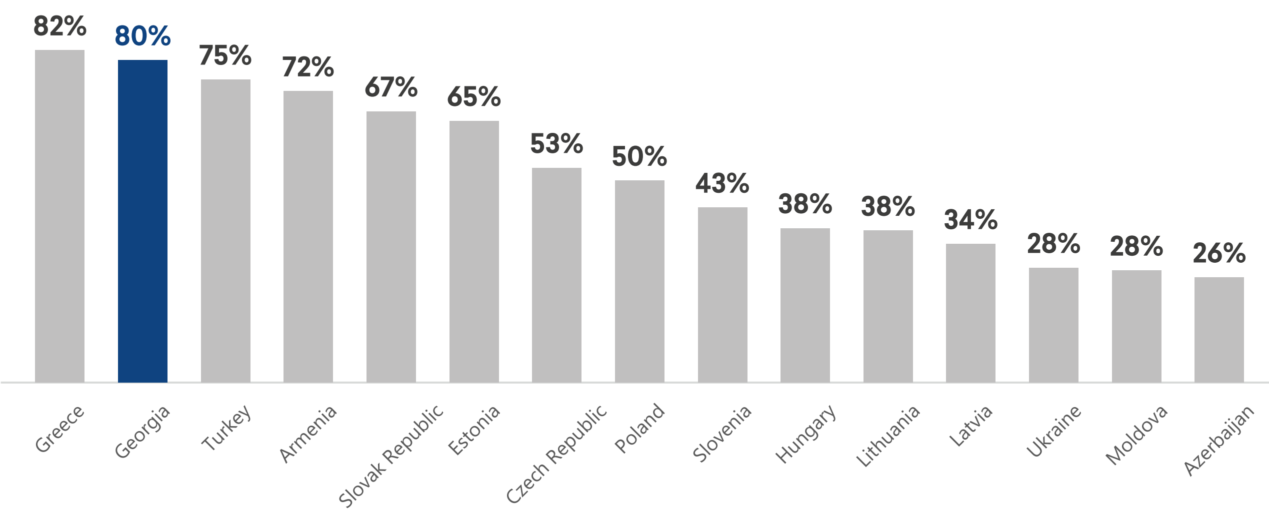


The most widely available source of financing for businesses is bank loans. During last five years leasing have progressively gained importance. The demand for leasing as an alternative way of financing is expected to further grow due to its relative flexibility and high-risk bearing nature compared to banks. Lease customers are not subject to maximum loan-to-value and payment-to-income ratios and tighter underwriting requirements. Leasing customers can increase production capacity and concentrate on their core competencies with minimum participation and as mentioned above without additional collateral, which in fact is directly related to the country's economic growth and development.

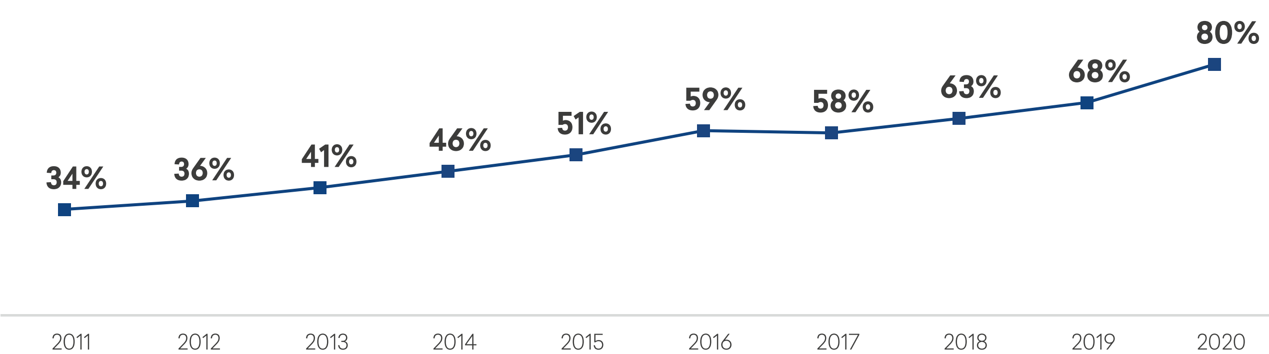
So far, leasing as a product is at an early stage of development and has not reached its full potential. The main leasing market portfolio consists of standard financial leasing. About 99% of our portfolio is asset-based leasing and remaining 1% of our portfolio is operating leasing/full service leasing. Given the generally positive development trends in the industry and the increased opportunities in the machinery leasing market, it is likely that the operating leasing market will slowly strengthen and provide more incentive for bank-owned leasing companies to develop in this direction.

In 2021, bank credit growth increased by 18.3% y-o-y, compared to 9.1%[7] y-o-y growth in 2020. In terms of segments, corporate and MSME lending growth increased markedly by 8.4 pp and 12.0 pp from 2020 to 2021 and amounted to [15.6]% and [22.4]% y-o-y, respectively. With the banking sector growing, access to financing has improved. Expansion in financial activity reflects a favourable economic environment in Georgia. Georgia stands alongside other peer countries in terms of Private sector credit-to-GDP.

Private Sector Credit-to-GDP (Georgia VS Other Countries)



Private Sector Credit-to-GDP (Georgia 2011-2020)

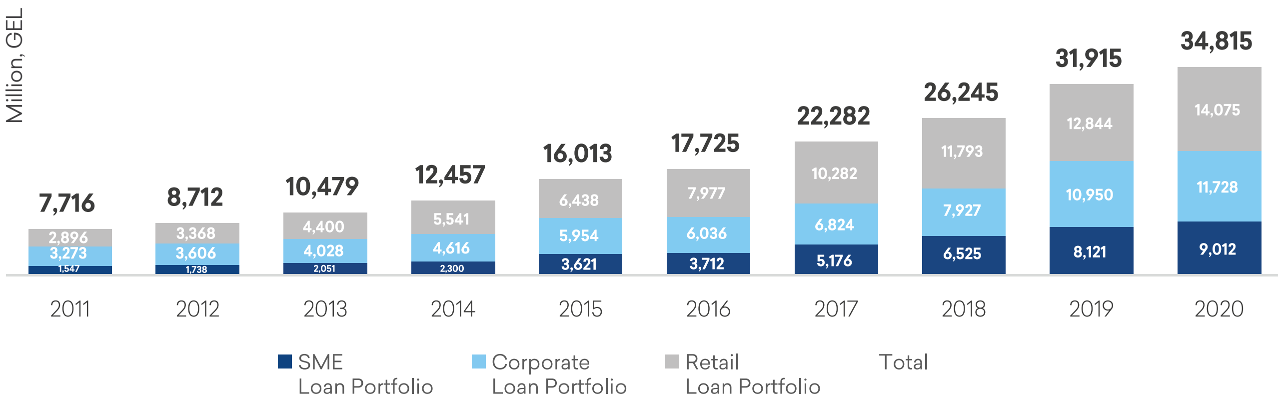


[7] NBG

[8] Source: Financing in Georgia: Small and medium enterprises and the private sector 2019

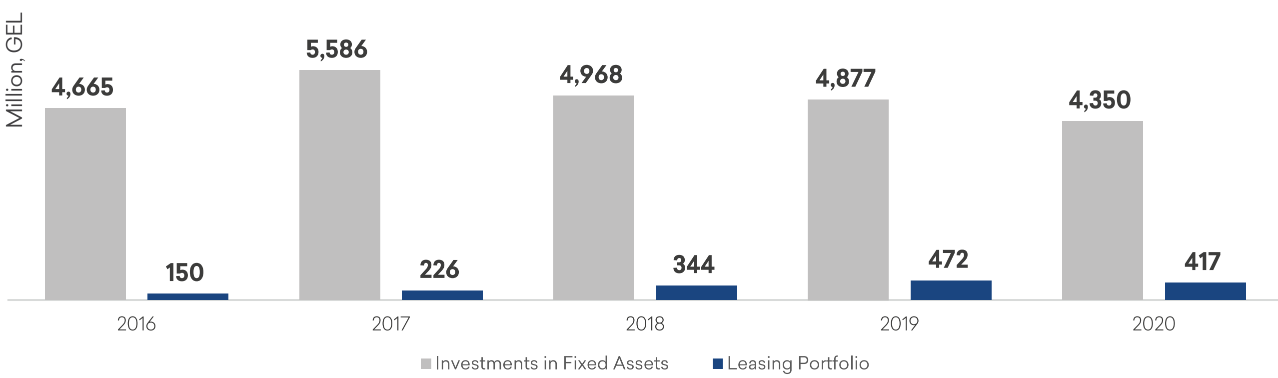
Volume of the SME portfolio has increased almost six fold since 2011 – 26%[8] of all loans are provided to the SME segment. Capacity wise Georgian leasing sector has substantial room for growth. It should be noted that micro, small and medium enterprises make up 99.7% of the business in Georgia, therefore, their activities and investments are crucial for the economic development of the country. Leasing, in turn, is the best financial instrument for financing fixed assets in micro, small and medium businesses.

Composition of the Loan Portfolio by Segment (Excluding Interbank Loans)



(Adjusted for exchange rate effect, the exchange rate as of the end of 2019)

Investments in Fixed Assets VS leasing Portfolio Dynamics



REGULATORY ENVIRONMENT

Leasing industry in Georgia is not heavily regulated compared to other financial institutions such as banks and micro-finance organizations. General framework governing leasing industry does not exist separately - leasing sector is regulated by general legislation as any other entrepreneurial entity and there is no licensing, permitting, accreditation, authorization, minimum capital requirements or any other requirements for leasing companies. As with any unregulated activity, leasing is similarly subject to the general rule laid down in business, tax and civil law.

The only regulation that spreads on leasing companies is that all leasing operations worth up to GEL [200,000] must be carried out in the national currency and under the same law a maximum annual effective interest rate is set for the lessor, which should not exceed 50%.

In the absence of the regulation, existence of strong industry association is crucial, which plays a key role in the self-regulation of the leasing industry. A strong industry association will ensure that the leasing industry speaks with one voice to the government and other stakeholders, introducing certain knowledge and modern standards to the industry.

Over the past few years, government financial support programs have created significant demand for the leasing industry for manufacturing equipment. Ministry of Economy and Sustainable Development and the Office of the Prime Minister in promoting the development of the leasing industry in Georgia.

With the support of the UK Good Governance Fund, facilitated by the Investors' Council, we implemented a project to ensure the development of the Georgian leasing market. Within the project legal, tax, regulatory and business environment of leasing market was assessed and based on an international best practices number of recommendations were developed. The document is now passed to the government for the review.

BUSINESS MODEL

CREATING MARKET-LEADING LEASING PRODUCTS AND SERVICES THROUGH INNOVATION AND EXPERTISE, DELIVERING FLEXIBLE FUNDING SOLUTIONS FOR GEORGIAN BUSINESSES THERBY CREATING VALUE ACROSS THE ECONOMY

We create value through providing long-term, finance and operating leasing solutions for assets that is used for a wide variety of applications - and the provision of services to a diverse customer base across Georgia.

At its most basic, our model is simple – we purchase an asset, we lease it to our customers and generate a revenue stream each year we own it (on average, three to five years) and then we sell it in the second-hand market and receive a proportion of the original purchase price in disposal proceeds or release it. We incur costs in providing this service, principally employee, maintenance, property, transportation costs and depreciation.

Our extensive network of both international and local asset providers enables us to lease various types of assets, from small hand-held equipment to the largest industrial equipment. We purchase equipment from renowned manufacturers with strong reputations for product quality and reliability and preserve close relationships with them to ensure certainty of supply and good after-purchase service and support. We continuously work with our vendors to provide early visibility of our needs to ensure we receive them when we need it.

Our solutions mainly comprise leasing and asset financing for machinery and equipment, vehicles, construction equipment, agricultural equipment, IT and communication equipment, medical technology, real estate, large-scale movable assets (aircrafts, yachts and etc.).

Through leveraging on our business know-how, experience and knowledge accumulated throughout years around various assets, we provide our asset expertise and leasing solutions tailored to our clients' business activities. This is facilitated by our asset management department, which brings together a team of employees whose competencies include detailed knowledge of the characteristics of different types of assets.

Leasing Process

1. Client chooses equipment of its choice
2. TBCL's Lease project manager fills application with lessee and defines the appropriate lease product
3. Client provides documents for the lease application to TBCL
4. TBCL makes lease project memo with appropriate analyses and makes decision whether or not to approve the project
5. TBCL agrees on the price, payment and delivery conditions with the vendor and transmits offer of the lease project to the client
6. Lease and Purchase Agreements are signed between TBCL, the client and the vendor
7. Client receives the equipment and starts payments to TBCL

We have extensive geographical coverage throughout Georgia and provide our products and services through various type of sales channels including official representative dealerships, vendors, direct sales channels and parent bank. Our broad sales coverage is supported with the tight cooperation of top international equipment vendors and car dealers. Also, the presence of customer pathway and referral synergies from our parent is further contributing to our sales generation.

We are represented in largest cities of Georgia through three branches, although the service center is located at the Company's headquarters in Tbilisi.

Our customers range in size and scale from small, medium and corporate business to retail individuals, helping them in financing and expanding their business activities. Our customer base is also diversified across industries with no industry representing more than 20%. Our diversified customer base includes all sectors of economy including Construction, Development, Services, Road Construction, Medicine, Agriculture, Trade, HoReCa, Light Industry, Renewable Energy, Automotive, Technology, Media and Telecommunications and Printing.

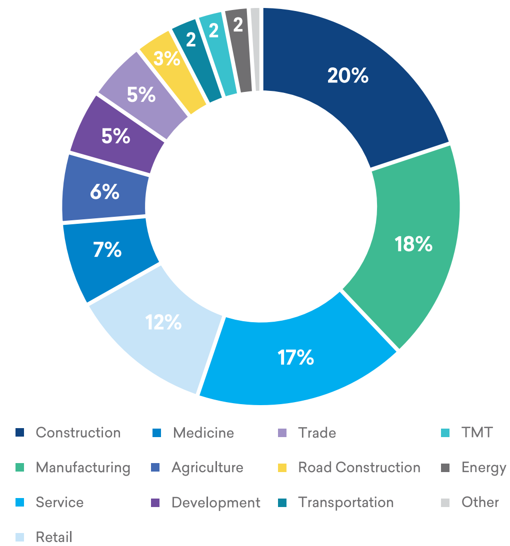
Our Credit Department is divided into three sectors. The Medical Sector oversees medical, service and technology, media, telecommunications and printing sectors. The Agro and Industrial Sector is responsible for projects related to agriculture, production and distribution machines, and the Construction Department serves the companies involved in Development and Road construction.

Our Operating Segments are components that engage in business activities that may earn revenues or incur expenses.

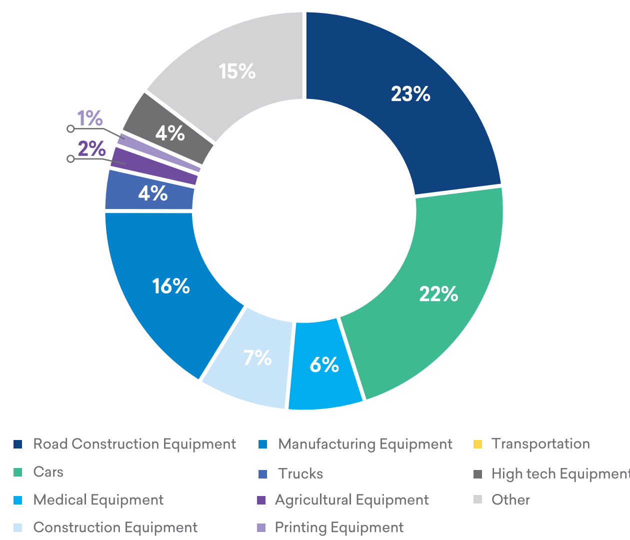
Our operating segments are:

- Business, which includes all leases to legal entities or group of entities where asset financed is everything but vehicles;
- Automotive, which includes all leases to legal entities or group of entities where asset financed is vehicle; and
- Retail, which includes all leases to all non-business individual customers.
- The management assesses the performance of the operating segments based on a measure of Total Comprehensive Income/(Loss) for the year. The reportable segments are the same as the operating segments. Segment overview is discussed in the following section.

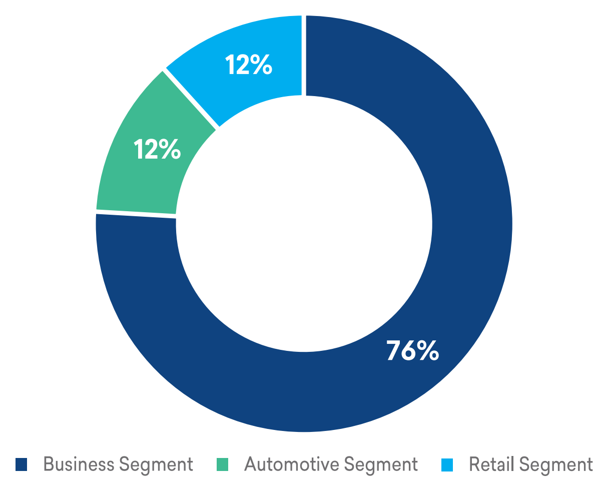
Lease Portfolio breakdown by Industries



Lease Portfolio breakdown by Asset Type



Lease Portfolio breakdown by Segments



SEGMENT OVERVIEW

BUSINESS SEGMENT

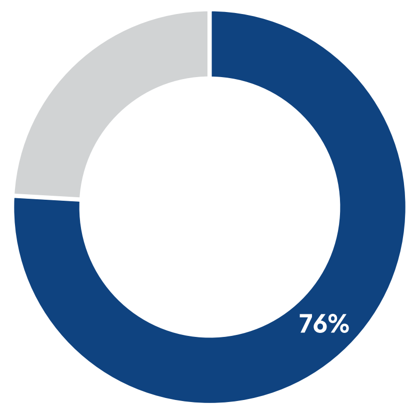
We are a leading lease service provider for Business segment in Georgia holding 79.4% market share with 518 Business segment clients and 193 million GEL portfolio as of 2021.

Business segment comprises 76% of total portfolio and is well-diversified across different industries.

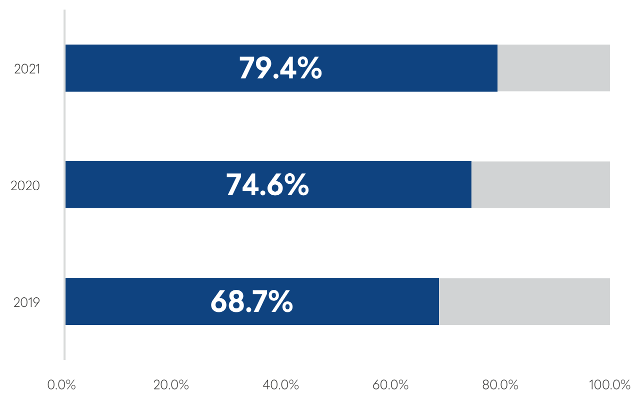
We support Business segment via well-structured, efficient and beneficial leasing solutions. With special deals and a remarkable cooperation with top vendors, we manage to finance a wide range of industrial assets for large enterprises and help them expand their activities. We pride ourselves on having an extensive network of asset providers in order to support our clients in their operations. Throughout the years, we have built successful partnerships with numerous corporate clients and have been a part of their success.

During 2021, in the context of the global pandemic, we were able to maintain the volume of Business portfolio, which has grown average 3% per annum for the last three years and amounted to GEL 193 million as of the end of 2021. The Company served a total of 518 Business clients. Despite of the current challenges, the Company has implemented many interesting innovations.

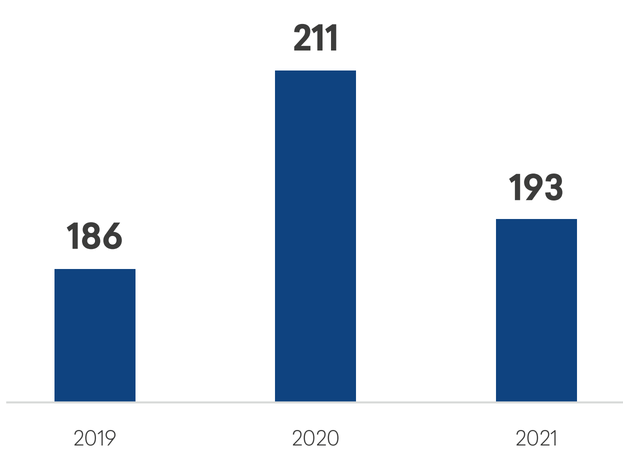
Business Segment Portfolio Share in Total Portfolio



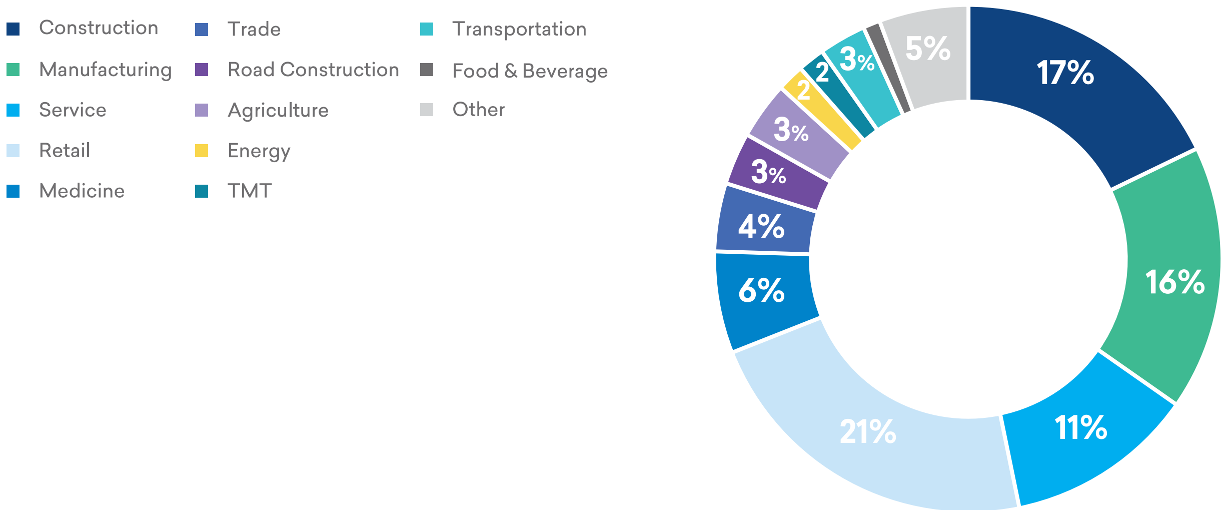
Business Segment Portfolio Market Share Dynamics

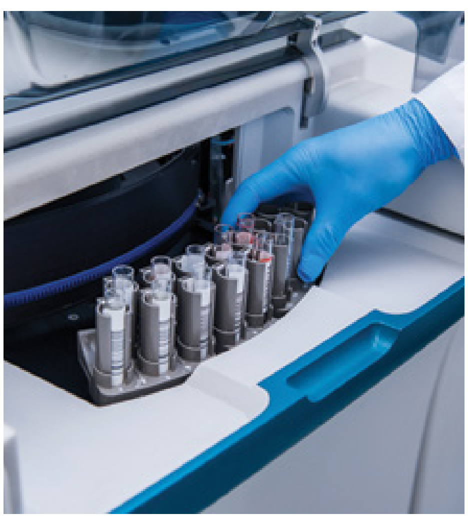


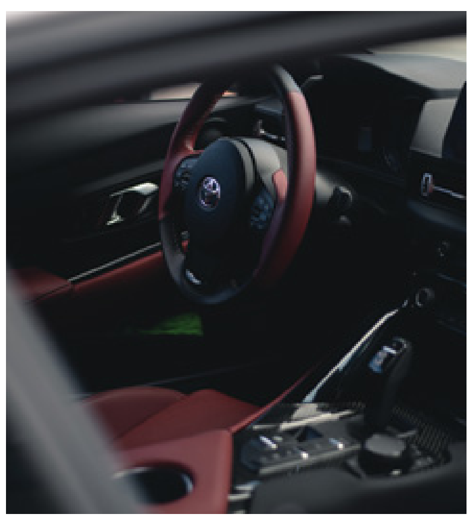
Business Segment Portfolio



Business Segment Portfolio breakdown by industries







SOLUTIONS OFFERED

FINANCIAL LEASING

Financial Leasing is an effective investment method for our clients providing the right of usage of any new or second-hand assets such as machinery or equipment chosen by our client for predetermined lease monthly instalments, with ownership of the asset remaining with us, the leasing company.

Financial lease is the most popular product with the largest 98% share in the Company's portfolio.

COOPERATION WITH ENTERPRISE GEORGIA

The program aims to support development of businesses in prioritized fields of economy by Georgian government and diversification of domestic production, through creation of new enterprises, and expansion and re-equipment of existing enterprises. Within the framework of this project, leases in the range of GEL 50,000-10,000,000 are subsidized for the lease interest rate by the national refinancing rate minus 3% for the full term of the lease.

During 2021, we financed 43 projects under the subsidy program totalling GEL 17,546,385.

COOPERATION WITH RURAL DEVELOPMENT AGENCY ("RDA")

The program's purpose is to improve the processes of primary agricultural production, processing, storage and sale by providing the legal and natural entities with cheap, affordable long-term and preferential funds and serves the development of the agricultural products' added value generating infrastructure.

Within the frame of the project, the enterprises involved in creation of the agricultural products (modern farms, greenhouse, etc.) or engaged in any form of processing of agricultural products (storage, packaging, recycling), or producing packaging materials for the agricultural products are eligible for co-financing.

Within the framework of this project leases within the range of GEL 20,000-1,500,000 are co-financed for the lease interest portion by 12% for the full term of the lease.

During 2021, we financed 30 projects under the subsidy program totalling GEL 4,711,295.

QUICK LEASING FOR CONSTRUCTION, MEDICAL AND AGRICULTURAL EQUIPMENT

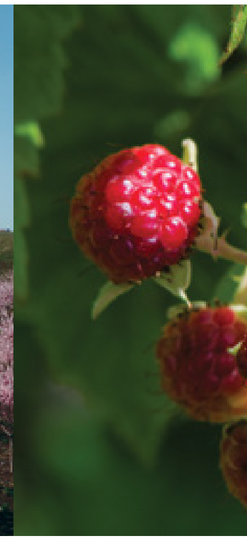
Flexible approach for financial leasing solution compared to standard financial leasing with an easy application and approval process. Approval process usually takes one-three days.

COMMERCIAL REAL ESTATE LEASING

We were pioneers in introducing commercial real estate leasing in Georgian market in 2021. Commercial Real Estate leasing allows our clients to rent commercial property for a monthly lease instalment over the lease period while guarantying the ownership of the property at the end of the lease period.

18 YEARS HISTORY OF SUPPORTING GEORGIAN BUSSINESS ENVIROMENT SINCE INCEPTION TBCL HAS BEEN PROVIDING FUNDS THAT HELP BUSINESSES GROW

Supporting Georgian businesses has become especially important in a pandemic and post pandemic reality. In this regard, during the year we have formed and deepened our collaboration with various businesses. This period once again revealed the importance of economic independence and supporting manufacturing and production sector.



COCA-COLA

Many companies in Georgia use operating leasing. Coca-Cola is one of them, the history of which begins in Georgia in 1993 and has been enjoyed unconditionally by the consumer for almost 30 years. TBC Leasing is a reliable partner of Coca-Cola. With distribution machines purchased under operating leases, Coca-Cola is always where its customers are.

AZIMUT YACHTS

In 2021 we have laid the ground for another fruitful relationship with the largest producer of mega yachts and the world's leading group in the luxury boat sector. Azimut offers the most extensive range of motor boats and is a leader in production having the most extensive sales network in the boating industry worldwide, with 138 sites in 68 countries.

With the help of leasing, it is now available to simply choose the yacht of your choice and go boating in sunny Batumi. The latest asset funded by our partnership is the Azimut 50 Flybridge - the perfect combination of speed, impressive design and comfort.

UDABNO

Udabno manages one of the biggest agricultural developments in Georgia's eastern region of Kakheti. The almond orchard, berry farms, vineyard with endemic grape varieties, as well as the dairy farm. By developing up to 8,000 hectares of land in Kakheti, Udabno is playing a pivotal role in fighting desertification, while bringing biodiversity in the region Udabno has been establishing modern, efficient and sustainable agricultural practices in Georgia.

With the support of TBCL the company was able to receive heavy agricultural equipment which further contributed to seamless and effective production processes.

Udabno is a member of the International Nut and Dried Fruit Council (INC), Georgia's Almond & Walnut Producer Association, and Georgian Farmers' Association. The company also consults with the Spanish firm Nogaltec that has vast knowledge and experience in almond cultivation and exploitation.

FIJIS

The company is specialized in the production and sale of raspberries and owns plantations for production of raspberry. With the support of TBCL the company was able to access up-to-date production equipment, further contributing to the development of berry culture in Georgia.

GREENGOLD

In the region of Guria, west Georgia the tea harvest tradition has been since many centuries and the company continued this heritage through rehabilitating up to 25 hectares of abandoned tea plants.

The company produces a high quality, GMO free diversified tastes of Georgian tea and sells them both locally and internationally. We have contributed to the modernization of the long run history of tea harvesting in West Georgia through financing a highly tech equipped tea factory for the company.

GEPHERRINI

The company produces bags, shoes, wallets, and accessories and is represented in eleven countries with 42 selling points. The company started out as a small enterprise and over time, it has become one of the fastest-growing, leather accessories brands in Eastern Europe. With TBCL's support the company was able to expand its production through financing sewing machines.

NIKOLI

The company produces clothes for children which are available both online and on physical point of sales. We supported Nicole in acquiring sewing and other production machines.

AS COMPANY'S LONG TERM DEVELOPMENT STRATEGY, WE ARE COMMITTED IN FINANCING A WIDE RANGE OF ENVIRONMENTALLY CONSCIOUS AND SUSTAINABLE PROJECTS

We actively started developing new products that will help increase the financing volume of energy efficient assets as well as finance the production of renewable energy such as wind power and solar panels. With this in mind we actively cooperate with the local solar panel manufacturer AE SOLAR.

AE Solar is a German TIER1 solar panels manufacturer, the member of the UN Global Compact, and today AE operates in more than 95 countries worldwide.. The company's sales area includes the continents of Africa, Asia, Europe, South and North America, the Asia-Pacific and the Middle East. AE Solar has two manufacturing facilities worldwide. In particular, solar panel factories are located in Georgia and China, with 1 GW per year. Large-scale manufacturing of solar panels in Georgia started in September 2019. Before launching the production, AE Solar has been cooperating with TBC Leasing since 2018. With the resources of our Company, AE Solar has increased production capacity.

We have been exploring ways to support the development of the solar energy ecosystem, specifically to fill the missing gaps that are currently withholding potential demand. One of the challenges hindering the initial uptake of solar energy systems in Georgia is the lack of demonstration projects in the market to increase confidence and stimulate demand. However, interest in solar energy panels has increased due to recent hikes in electricity tariffs for households and commercial users in Georgia.

To facilitate renewable energy consumption and shift our clients' interest to sustainable energy usage we have cooperated with Rural Development Agency and Enterprise Georgia and offered subsidy programs which in turn significantly reduced our clients' monthly lease instalments, not to mention the energy cost optimization.

DEEP GREENING – SCALING INITIATIVE: PROMOTING SOLAR PV SYSTEMS IN GEORGIA

In light of the recent developments in Georgia, the Green for Growth Fund ("GGF"), represented by Finance in Motion supported us in the origination of solar photovoltaic (PV) projects with our commercial and industrial clients.

With the GGF facility we were able to support key green services associated with the initial solar PV projects, namely design and installation costs of our clients. The sponsorship total budget is 150,000 EUR and is available to commercial and industrial clients, covering maximum of 10,000 EUR per client.

During 2021, three solar panel projects have already been financed with total financing volume of c.1.2 million GEL, out of which c.58,000 GEL was subsidized with the funding by the European Union under the EU4Energy Initiative

SOLAR MARKETPLACE ("DSM")

In parallel, we have also started to develop a digital platform where interested customers will be able to provide the main characteristics of their prospective solar photovoltaic project and obtain quotes from us. DSM will be integrated to our website and will have leasing and an impact calculator for solar PV systems - enabling our potential clients to calculate leasing rates from different technology suppliers including the main impact metrics such as energy and Carbone-dioxide ($CO2$) emission reduction, savings in monetary terms and estimated payback period.

GGF Project has received funding from the European Union under the EU4Energy Initiative. The EU4Energy Initiative covers all EU support to improve energy supply, security and connectivity, as well as to promote energy efficiency and the use of renewables in the Eastern Partner countries Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. It does this by financing projects and programs that help to reform energy markets and to reduce national energy dependence and consumption. Over the longer term, this makes energy supply more reliable, transparent and affordable, thus reducing energy poverty and energy bills for both citizens and the private sector. More information on: www.EU4Energy.eu

GEORGIAN ALTERNATIVE ENERGY

The company produces green electricity through the environmentally harmful substance recycling and is contributing to the country's energy efficiency.

With the support of TBCL the company was able to increase its production capacity through leasing the equipment needed to operate the generators.

AUTOMOTIVE SEGMENT

We are a leading lease service provider for vehicle financing among legal clients in Georgia holding 68.1% market share. We manage 826 vehicles under Automotive segment with total portfolio of 31 million GEL. Automotive segment comprises 12% of total portfolio.

Under Automotive segment we finance new, second-hand imported and second-hand local cars for individuals.

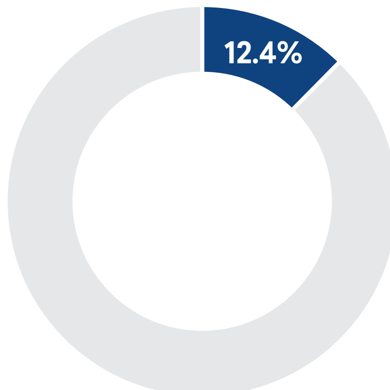
OPERATIONAL LEASING

We are leading provider of automotive leasing solutions, including vehicle fleet leasing managing the entire vehicle lifecycle for our clients, taking care of everything from purchasing and maintenance to car remarketing. Operating leasing for vehicles is a form of finance that allows our customers to get hands on a brand-new vehicle, regularly, without the hassle with cost standardization and optimization through the standardized fixed monthly instalment with all maintenance costs included.

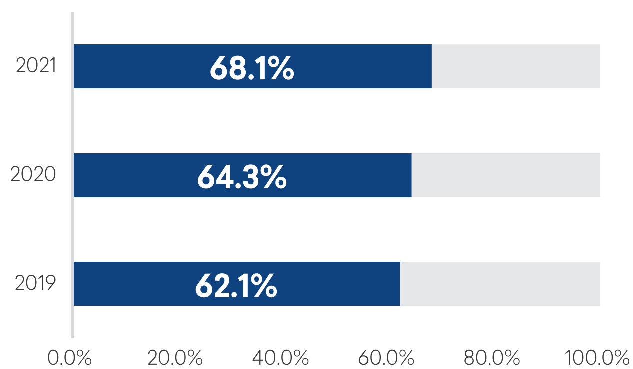
We provide a full end-to-end service taking care of insurance, maintenance and repairs with an option to upgrade a vehicle at the end of the term of lease. Our expertise in vehicle fleet management has been developed over a decade, enabling us to provide technical support and ongoing management services for the entire commercial vehicle life cycle.

We have both direct sales and indirect sales through dealers, banks, brokers that generate referrals to TBCL. In 2021 we also introduced operating leasing for heavy construction equipment and distribution vehicles which shares the same service benefits as vehicle operating leasing.

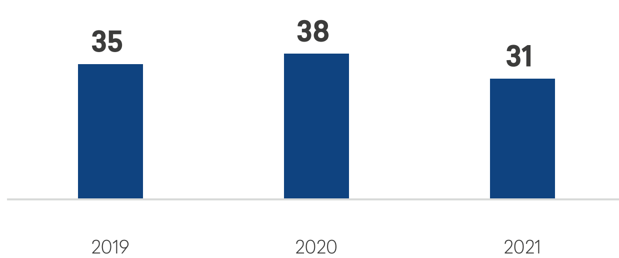
Automotive Segment Portfolio Share in Total Portfolio



Automotive Segment Portfolio Market Share Dynamics



Automotive Segment Portfolio



RETAIL SEGMENT

We are a leading lease service provider for vehicle financing among non-business, individual customers holding 66.7% market share with 30 million GEL portfolio as of 2021.

Retail segment comprises 12% of total portfolio and is one of the most active and fast-growing directions in the Company.

Under Retail segment we finance new, second-hand imported and second-hand local cars for individuals.

We cooperate with all official auto centres and auto dealers in Georgia. However, our customers also have the opportunity to use the services of official importing companies and subscribe to a used car of their choice from the US, Europe or Japan or otherwise find a similar model locally.

TOYOTA EASY

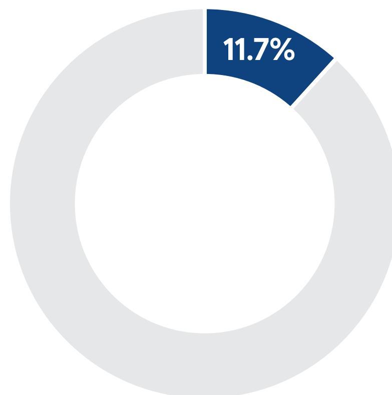
In collaboration with TOYOTA official representative, we initiated new offer TOYOTA EASY in 2021, under which our clients gain an access to exclusive offers from official dealer with fast and easy application approval procedure, with no advance payment requirement. The attractiveness of the offer lies in the clients' option to maintain the vehicle for a predetermined residual value or return it to service centre for an upgrade for a new one.

As the offer was well absorbed by the market, we plan to refine and broaden the offer with other official car dealers and introduce a new product EASY leasing which will further contribute to the development of new car sales.

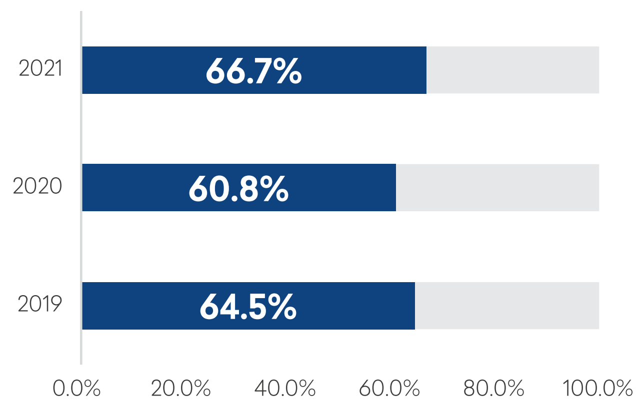
SCOOTER LEASING

In 2021 we introduced new offer financing motorcycles and scooters enabling our customers to use eco-friendly, efficient mobility solution.

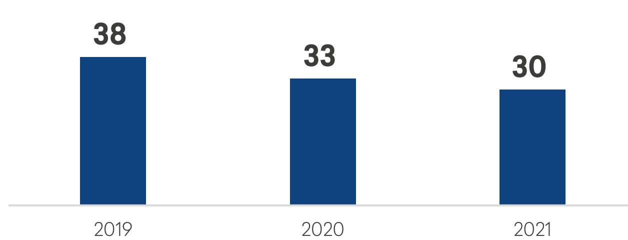
Retail Portfolio



Retail Portfolio Market Share Dynamics



Retail Portfolio Share in Total Portfolio



OUR STRATEGY AND

PERFOMANCE AGAINST THE STRATEGY

OUR STRATEGY AND PERFOMANCE AGAINST THE STRATEGY

In light of the pandemic reality, given the amplified pressure on Georgian economy and businesses we have revised our strategic priorities with the main focus on supporting our customers to overcome post-pandemic challenges by leveraging on our operational flexibility.

During 2021, we concentrated on the digitalization of our business operations, cost optimization and increasing access to financial resources.

We have rolled out our new financial scheme which was led by the need to adapt to our new business model and tailor our leasing products to latest market sentiments.

In terms of financial measures, we have prioritized prudent management of our liquidity positions, proactive management of our asset quality, as well as cost optimization. Despite the economic slowdown, we have also concentrated our efforts on giving careful consideration to our customers' needs and offering them the most relevant products and services at suitable prices.

In parallel, we have been protecting our staff by providing them with a safe working environment enabling them to work on shifts and remotely where possible.

FOUR PILLARS OF OUR LONG-TERM DEVELOPMENT STRATEGY

RAISING AWARENESS ABOUT LEASING AND INCREASING THE CUSTOMER BASE

Increasing customer base and rising awareness of leasing as an alternative way of financing remains the main strategic priority. As we examined earlier, the essence of the leasing was incomprehensible or vague to the majority of the population. Majority of our target audience associated leasing with auto loans and didn't perceived leasing as a financial instrument for financing a broader range of assets.

SME clients often struggle to access the financing they need to acquire new equipment or vehicles to grow their operations. It is essential to provide more growth opportunities to SMEs so that they may act as our country's engine of growth. With this in mind, in collaboration with UK Good Governance fund we developed a strategy roadmap for enhancing Georgian leasing market which is now passed to the Georgian government.

The pandemic reality once again demonstrated that often the core value lies not in a possession but rather in a usage – which provides more flexibility to adapting innovations and enables effective short or long-term decision making.

We build both leasing and our brand awareness through traditional and digital channels and try to increase our brand equity. During 2021, we performed quantitative and qualitative research analyzes.

The research was conducted by third party organization to measure top of mind awareness of leasing. Customers were told to list series of companies offering leasing solutions and asked two simple questions such as:

1. Name the companies, offering leasing services in Georgia
2. Now, I will name Georgian leasing companies, please tell me whether you have heard about them or not

This was to find out what is the first brand that comes to their minds and check the awareness among the customers. The experiment was repeated every six months for the sample of 600 to 800 customers and the percentage of people telling the different leasing companies were noted down. From these percentages the awareness level of the Company was calculated. It was also a good measure for the effectiveness of our marketing campaigns.

In 2021, an increase in TOM (TOP OF MIND) data is observed for the SME segment, due to the pandemics data for the 2020 year is missing.

Spontaneous and Reminder Sums and Spontaneous Awareness

	January - February	June - July	July - August	September	November - December
Spontaneous and Reminder Sums	73%	63%	76%	68%	75%
Spontaneous Awareness	24%	23%	29%	26%	26%

During 2021, to facilitate knowledge sharing among young generation we performed number of workshops among top Georgian universities, under which our management team periodically held meetings with students from different faculties sharing their knowledge and experience in leasing sector. This further contributed to raising awareness of leasing as an alternative financial instrument to the upcoming generation of professionals.

We continued our informational campaigns during the year. Video guides and interviews on national business TV shows describing core advantages of leasing solutions and the simplicity and flexibility of our products to reach broader target audience.

Commercial content posts, in particular, action-oriented posts with the focus on utilization of leasing solutions in various areas of personal and business activities such as educational institutions, sewing, dental office, dairy production, etc. Furthermore, small interviews with our credible, highly recognized customers who enjoyed our services, emphasizing the value creation through leasing solutions.

As a result of these enhanced informational campaigns, we managed to further increase our outreach and in near-term we plan to further escalate engagement to raise leasing awareness. With this in mind, we initiated a new campaign under which trendsetters, and opinion leaders will use their voice to raise awareness of leasing and mainly share the solutions we offer. With eye-catching brief video footage our opinion leaders will convey all-encompassing information about leasing and solutions we offer. The campaign is intended to cover all of our digital channels, as well as online media and TV shows.

Digital Marketing content metrics

Reach	Frequency	Total Interactions	Post Shares	Post Engagement
2,593,226	17	128,670	3,451	3,916,953

IMPROVING THE CUSTOMER SATISFACTION

We are committed to providing great customer experiences. From the first interaction with our employee to all the way at each touchpoint, we want to make sure that customer experience with us is as positive and seamless as possible. This requires active engagement with our clients via various channels in order to receive their feedback about our service quality and value proposition, as well as to understand their preferences.

During 2021, we focused on and further developed our Customer Relationship Management (CRM) system which was implemented in 2020. Now CRM is integrated with our call centre. CRM enables us to effectively manage whole customer journey strengthening collaboration between sales, marketing and customer service departments.

In particular, our CRM system enables us to keep track and compile leads and customer data across different channels or contact points and redirect them to responsible managers which further enables sales teams to input, track and analyse data for leads in one place.

Sales and marketing teams procure leads from call centre and social media and update the system with information throughout the customer lifecycle, system aids to manage performance and productivity through reports and dashboards.

CRM also enables registration of day-to-day customer issues through cases and recording all interactions related to each case and then the data is gathered and customer history records are revised through service calls and technical support interactions.

We have also implemented streamlined system for handling, managing, responding to, and reporting customer grievances which allows us constant monitoring and ensures faster resolutions. When a customer submits a complaint, it is routed to the right department or person and the progress for each claim is monitored and reported in detail. CRM not only increased our customer satisfaction, but also resulted in improved efficiency.

We have mandatory procedures for each customer feedback, as well as customer communication guidelines and Q/A documents in place. Besides, to simplify the life of internal and external users, we have in place an automatic message generation system. Automatic leasing monthly reminder messages, refinancing rate changes, transactions, etc. are sent to the customer in automatic mode.

We have a centralized call centre redirecting both existing and new customer issues to the appropriate destinations. The 2021 results of the Call Centre showed an average of [71[% of answered inbound calls per day. In addition, waiting time for inbound calls has been reduced.

Call Centre KPIs

2021	2020
64% Answered	71% Answered
40 sec Average Call Waiting Time	37 sec Average Call Waiting Time

SURVEYS

In 2021, we scored 63% in NPS survey which measures how willing customers are to recommend our products and services to others. The survey was conducted among corporate and SME clients.

In near term we plan to conduct a wider customer experience research analyses under which NPS score will be calculated among different segments. In addition, the survey will be conducted immediately after the customer receives the service, enabling us to better analyse the quality of our service. The second phase of CRM implementation will help us in this project.

DIGITAL TECHNOLOGIES DEVELOPMENT

Simplifying our customer experience extends to the digitalization of both our external and internal processes, which would not only make life easier for customers, but also allow employees to work more efficiently and get more closer look on internal processes.

As already stated, in 2021 we rolled out CRM, the effect of which lies in the systematization of the sales stages. CRM helps us to improve sales efficiency, as technologies allow us to manage each project before selling, manage the sales pipeline dynamically, track the pre-sale process, calculate and analyse the reasons for the loss and manage the portfolio in terms of sales stages, while analysing the pipeline in monetary and quantitative concentrations. We have a system of daily dynamic analysis in place for the commercial direction, which helps to get a live analysis and serves as a monitoring tool.

We have created electronic record system in our Leasing Management System (LMS), under which all documents are archived in the system – reducing the risk of human error.

In 2021, we integrated our system with CREDITINFO Georgia which specializes in credit information and the provision of information essential to the decision-making processes of all financial institutions.

To further simplify procedures for our customers, we started working on the integration of TBC Bank online and mobile banks. When choosing a leasing service in the Internet Banking payment system, the customer will be able to verify the information and, accordingly, transfer the amount according to two criteria:

- Payment by personal number / identification code;
- Payment under a specific leasing agreement number;

Since the debt will be verified by two different criteria, the information provided / specified by us in the notification and amount fields will be different and detailed for each case. So, the customer will no longer need to search for a cash register or a bank branch for the payment.

For its part, TBC Leasing aimed to make leasing a digital product, which, in direct proportion, would further increase customer satisfaction. Such an alteration could not be done in the short run, however, in 2020 we started planning to implement these processes and in 2021 specific targets were met, such as development of customer portal and managing lead generation through CRM tool. A customer portal is still undergoing development and by the end of 2022 it will be launched at fool scale. This will improve communication with customers on operational issues and also we will offer them additional services. Furthermore, we will save the resource of leasing managers in terms of communication and operations, and it will be possible to target promotions and offers in our ecosystem.

The business development section includes a new sales model. It will be an online application receiving platform, which will allow you to automatically review incoming applications and approve leasing under pre-designed terms.

BUILDING THE WIDEST NETWORK OF LOCAL AND INTERNATIONAL LEASING ASSETS PROVIDERS

The Company's key strategic direction remains active cooperation with leasing asset providers, both locally and internationally and further expanding the widest network of providers across the country, which ultimately serves to make leasing an even more attractive product.

The quality, reliability, diversity, quick availability and price of a leasing asset are important for the development of leasing as a product. We, as a major player in the country's leasing market, create value by having many years of experience in dealing with both local and foreign providers, allowing us to have prior knowledge of different types of assets before a client arrives. Long-term and stable cooperation with our providers allows us to offer leasing assets at a competitive price.

The key issues listed above allow us to serve a customer on "a single-window concept" principle, offer the required different types of asset or assets in one space and time, both on domestic and international level and enable them to purchase assets from different providers and most importantly provide complete information and expertise on different types of leasing assets.

In 2021, to facilitate and encourage our vendors to cooperate and leverage their sales through leasing solutions we initiated new campaign under the name of Gold Vendor. The new initiative will on one hand, give our suppliers a competitive advantage over others and at the same time encourage them to offer our services to their clients - on the other hand, it will contribute to further streamlining our cooperation with vendors.

We have written out a procedure under which the Gold Vendor badge will be assigned to a credible, conscientious, long-term partner suppliers. The precise parameters have been defined in the relevant document implying both the need for positive financial performance and a satisfactory description by our department heads and managers.

The Gold Vendor Badge may be awarded to a company representing any sector that has worked closely with us over the past two years and signed at least three contracts or supplied assets with a total value of one million GEL. The suppliers holding Gold Vendor badge receive special leasing offers (no advance payment requirements, lower interest rates, faster approval and personal customer service) and likewise enjoy benefits of customer referral as well as active PR and sales campaigns from us.

In 2021 we had also initiated a campaign in the cooperation with Rural Development Agency co-financing program. Customers were offered leasing solutions without initial participation requirements. RDA subsidized 30-35% of the amount required for the asset and the remaining 65-70% was financed by us. Due to the high public interest, we actively promoted and disseminated information about the participant vendors, making it easier for our customers to select the desired asset.

KEY PERFORMANCE INDICATORS

FINANCIAL KPIS

In 2021 the company achieved extraordinary financial results, Net Profit and Return on Average Equity reached its historical maximum levels, which was mainly driven by several reasons: significantly improved net interest margin, which has improved by 5.1 pp from previous year; efficient management of administrative and operating costs resulting in decreased cost to income ratio of 51.9% and finally improved portfolio quality indicators resulting in 2.1% of cost of risk, which is 1.9 pp smaller than previous year's level.

NET LOSS / PROFIT

2021	12.1 mln
2020	-3.2 mln
2019	8.2 mln

482.9% YoY

NET INTEREST MARGIN

2021	13.4%
2020	8.3%
2019	10.6%

5.1 pp YoY

RETURN ON AVERAGE EQUITY

2021	29.4%
2020	-8.1%
2019	27.6%

-35.7 pp YoY

RETURN OF AVERAGE ASSET

2021	3.2%
2020	-0.8%
2019	2.6%

4.0 pp YoY

COST OF RISK

2021	2.1%
2020	4.0%
2019	2.4%

-1.9 pp YoY

NON-PERFORMING LEASE

2021	51.8%
2020	71.0%
2019	42.9%

-19.2 pp YoY

REVISED FITCH RATING

In 2021 Fitch Ratings has affirmed JSC TBC Leasing's (TBCL) Long-Term Issuer Default Rating (IDR) at 'BB-', with a Stable Outlook. A full list of rating actions is below.

TBCL's IDRs are driven by expectations of support from TBC Bank. The Stable Outlook mirrors that on the parent. Fitch's view of a high probability of support is based on the high reputational risk from a subsidiary default for TBC Bank, as this would significantly damage its reputation with its key wholesale lenders.

Fitch's view is also underpinned by full ownership, close integration with and a record of capital and funding support from TBC Bank. To support TBCL's growth, the parent has injected new equity on several occasions (most recently in December 2019). TBC Bank provides TBCL with subordinated and senior loans as well as letters of support to enable third-party borrowing. It also facilitates TBCL's bond placements.

DOING BUSINESS RESPONSIBLY

OUR COLLOGUES

EMPLOYEE ENGAGEMENT AND MOTIVATION

We aim to attract and develop best talents within our Company and keep our personnel engaged and motivated in order to support our corporate values and achieve our strategic goals.

With the support of our extensive selection process, tailored to the specific needs of each position and role we manage to acquire both - employees with an extensive working experience and young talents with innovative and fresh ideas.

We offer competitive remuneration packages to our employees, comprised of a fixed salary, performance based bonuses and a benefits package, covering medical insurance, paid annual and sick leave, as well as six months of fully paid maternity and paternity leave. Additional benefits include monetary gifts in case of childbirth, as well as extra day-offs for employees with three and more children.

In addition, we finance to our employees to attend various external courses and gain international certifications such as CFA, FRM, ACCA and others. Furthermore, we run mandatory in-house training for our employees based on their needs.

During 2021, to facilitate knowledge sharing culture across the Company we have conducted trainings in finance, sales, portfolio management methodology and anti-money laundering fields. During post-pandemic period, virtual meetings and trainings were still relevant. In this regard we have conducted five mandatory trainings for all of our employees under which 100% of our employees were trained.

In terms of employee engagement and motivation our management regularly conducts online meetings with employees to keep them up-to-date on the Company's performance against its strategy and recent achievements. The meetings are held in an interactive manner where stuff is given a chance to enter into dialogue and share their feedback. We also have internal Facebook group, in which we regularly share our achievements, as well as success stories of individual employees.

In 2021, to facilitate young talent acquisition we have launched an internship program. Within the scope of this program, we have prioritized internship divisional directions recruited a total of 13 interns.

EQUALITY AND DIVERSITY

All of our employees are treated equally and fairly, being respected and valued equally regardless of gender, age, ethnicity, race, religious and political beliefs, sexual orientation or disability.

We created a gender-balanced workforce through a workplace environment where 58% of employees are women, while the share of women in senior positions is 29%. We also have a diversified mix of people comprised of employees with extensive working experience and young and bright talents with innovative and fresh ideas whose collaboration gives us the best results.

Employee Gender Distribution

Gender	Female	Male	Total Number of Employees
% Share	58%	42%	135

Middle Management Gender Distribution

Gender	Female	Male	Total Middle Management
% Share	29%	71%	17

Employee Age Distribution

AGE	Under 29	30-39	40-49	Over 50
% Share	65	61	8	1

ETHICAL STANDARDS AND RESPONSIBLE CONDUCT

We are committed to high ethical standards, values and respect human rights, encourage our employees to act with integrity and responsibility towards each other and other stakeholders.

We not only have a full compliance with regulatory requirements and international policy, but also continue to strengthen our corporate governance in accordance with international best practices of business ethics. We have in place a set of internal policies and procedures and we closely monitor their execution. These policies and procedures consist of the following:

- Code of Ethics;
- Code of Conduct;
- Diversity, Equality and Inclusion Policy
- Incident Response Policy;
- Anti-Money Laundering Policy

In 2021 we introduced and implemented Incident Response Policy which aims to ensure effective corporate governance, maintain an ethical environment, timely detection and prevention of suspicious breaches, effective risk management throughout the company, as well as welfare and better working conditions for our employees. In addition, the policy establishes special procedures to assist employees in disclosing information about any suspicious violations and problems.

These policies lead to greater awareness of unacceptable behaviour and promote a 'speak up' culture in which all employees feel listened to and protected when reporting any suspected misconduct.

CREATING STABILITY IN THE ORGANIZATION

We have aligned to the post-pandemic environment and switched our working conditions to remote and hybrid style. As of now, the vast majority of our back-office employees work remotely. Notably, this initiative not only resulted in improved employee satisfaction levels, but also increased efficiency across the Company. In order to maintain close contact with our employees in the new reality, our senior management regularly held online meetings with employees to update them on Company's achievements and future plans, and address any concerns that they might be facing.

In terms of safety and health measures against the COVID-19 pandemic, in 2021 we developed a vaccination policy within the Company. The policy insured rapid and fast management of vaccination process across the company and resulted in significant surge in employee vaccination levels which reached 95% in 2021.

For the purposes of measuring our employee happiness and satisfaction and to observe the dynamics within the Company we are conducting ENPS and Happiness Surveys on annual basis. The findings obtained through these surveys are good indicators for the emotional background of our employees and assists us in planning the relevant activities.

ENPS

	2019	2020	2021
Score	29%	53%	51%

Crisis management also remained a significant challenge for our Human Resources Department. Remote control, security, education, staff transportation and weekly work plan - these are the issues that were still relevant during 2021.

OUR COMMUNITY

SOCIALLY VULNERABLE FAMILIES FINANCE

This year we again turned down traditional Christmas gifts and decided to direct resources to families with severe social backgrounds.

Almost all cases were found on social platforms.. These were families living in Tbilisi, villages, mountainous regions, socially vulnerable and large families, students whose status was suspended due to lack of funds, and people struggling with a serious illness.

A total of GEL 300,000 was allocated to assist more than 300 families across the group;

- 13 cases were financed on behalf of the leasing group;
- Each family received 1000 GEL assistance;
- The exception was a student's case whose study was funded to the full extent;

SUPPORTING UKRAINIAN PEOPLE

To demonstrate our support to the Ukrainian people over the recent events, we have initiated a humanitarian support program, at the same time supporting Georgian small businesses.

Under this initiative, we have acquired a total of GEL 10,000 worth of humanitarian goods from our small sized clients and made our small contribution towards supporting Ukrainian people.

PAPER RECYCLING TRADITION

We continuously strive to minimize our environmental footprint. To minimize the damage caused by paper industry we are promoting going paperless across the company. We have special waste disposal green boxes placed in our offices and collect waste paper for recycling. From the collected paper, new books are printed, which are periodically used to update the existing libraries in the highland regions. During 2021, 300 kg of paper was collected and recycled.

OUR CLIENTS

BUSINESS SUPPORT

We are continuing our tradition of supporting Georgian businesses through our promotional activities across our communication channels.

Promotional activities included blogs about companies as well as topics that our audience was particularly interested in.

During 2021, we have produced more than 15 posts, shot 10+ videos supporting businesses, introducing them to an audience of over 3 million.

INVOLVEMENT IN SUBSIDY PROGRAMS

Against the background of the acute challenges of 2020, it became even clearer that the creation and existence of local businesses is a top priority for the welfare of the country. In this regard, organizations that implement projects and programs to support the business sector have become even more active.

In terms of business promotion we are involved in all the subsidy projects implemented by Enterprise Georgia and the Rural Development Agency. Within the scope of these projects we funded 73 projects that were subsidized by these organizations (see more about this programs in Business Segment overview on page 26).

73

PROJECTS

43

ENTERPRISE GEORGIA

30

RURAL DEVELOPMENT AGENCY

SUPPORTING SMALL AND MEDIUM-SIZED BUSINESSES

In October 2021, we have signed 6 million USD equivalent synthetic local currency loan agreement with the European Fund for Southeast Europe ("EFSE"). The international investors in the Fund comprise the European Union, the governments of Germany, Switzerland and Austria, as well as international financial institutions. The purpose of the raised funds was to foster economic development and prosperity through the sustainable provision of additional development finance, notably to micro and small enterprises.

Through the allocation of financial resources in local currency, we are actively promoting and raising awareness about the benefits of receiving financing in national currency among SME clients. We aim to reduce the risks associated with the exchange rate for our clients, while at the same time helping them to cope with the pandemic-induced economic challenges.

During 2021, within the scope of this collaboration we have placed leaflets in our offices providing detailed information on the terms and benefits of leasing in national currency, as well as the positive impact of national currency loans on the activities of small and medium-sized businesses.

SUPPORTING ENERGY AFFICIENT PROJECTS

Under the EU4BUSINESS SME Competitiveness Programme established by the European Bank for Reconstruction and Development ("EBRD") in cooperation with the EU we raised 3 million EUR.

The program aims to help finance investments in MSMEs to support sustainable investments in technologies, meeting best standards in the field of product quality, occupational health and safety, environmental protection, and promoting the use of green technologies, thereby enhancing MSMEs' competitiveness locally and regionally. By participating in the programme, we commit to enhance the business of leasing to MSMEs meeting the eligibility criteria set out by EBRD.

Within the scope of this arrangement our clients are entitled to apply for an investment incentive payment and are eligible to receive up to 15% of investment cost.

The Programme includes technical cooperation which will be supported by the local and international expert consultants (appointed and managed by the EBRD. Consultants will facilitate the successful operation of the programme by assisting with the implementation and monitoring and providing technical assistance to our clients in terms of meeting technical eligibility criteria.

Also, our long term partner Green for Growth Fund ("GGF") allocated 150,000 EUR sponsorship under the Deep Greening Scaling Initiative with the aim to provide development finance for energy efficiency and renewable energy investments and promoting solar PV systems in Georgia. The sponsorship entails compensation for design and installation costs of solar panels. During 2021, three solar panel projects have already been financed with total financing volume of c.1.2 million GEL, out of which c.58,000 GEL was subsidized with the funding by the European Union under the EU4Energy Initiative.

OUR ENVIRONMENTAL MANAGEMENT SYSTEM (EMS)

Environmental policy is developed within the TBC Group. Our Environmental Management System (EMS) is derived from this document and ensures that we comply with applicable environmental, health, safety and occupational regulations and apply appropriate best practices, as well as take appropriate measures to ensure that our customers comply with environmental and social responsibilities. Environmental policy is fully in line with Georgian environmental legislation Law of Georgia on Environmental Protection and international best practices (full policy is available at: www.tbcleasing.ge.

As a relatively small-scale company, the role of environmental and social risk management is combined between the organizational risk department and the employees of the credit risk department. Both units are under the risk director of the company. During 2020, TBC Leasing Risk and Commercial Officers underwent extensive training conducted by the TBC Bank ESRM team. The training covered the importance of environmental and social risks, ways of management and practical experience accumulated in the process.

1.5%

GREEN PORTFOLIO SHARE IN TOTAL PORTFOLIO

4.7mln GEL

GREEN PORTFOLIO VOLUME

GOVERNANCE

CORPORATE GOVERNANCE

Joint Stock Company TBC Leasing (the "Company") is the largest subsidiary of the largest commercial bank in Georgia - JSC TBC Bank, and in its turn TBC Bank is a subsidiary of TBC Bank Group PLC, a company listed on the premium segment of the London Stock Exchange. The company's Corporate Governance is in compliance with all applicable laws and regulations. In addition, the Company has in place an effective internal control system in order to ensure accurate and reliable financial reporting. The Company has a well-defined framework of accountability and delegation of authority, as well as policies and procedures that include financial planning and reporting; preparation of monthly management accounts; project governance; information security; and review of the disclosures within the annual report and accounts from the respective leads, to appropriately disclose all relevant developments in the year and to meet the requirements of a true and fair presentation.

The Company's executive bodies are the Shareholders' General Meeting, the Supervisory Board, Board of Directors (the Directorate).

The Shareholders' General Meeting is the Company's top governing body. The sole shareholder of the company is TBC Bank, a joint stock company registered in Georgia, which owns 100% of the company's shares. TBC Bank is the largest commercial bank in Georgia. The rights of the shareholders are set out in the Charter of the Company and governed by Law of Georgia on Entrepreneurs. The Shareholders' General Meeting is valid with regard to the decisions only if over 50% of the voting share capital attend in person or are represented by proxy. The Shareholders' General Meeting is chaired by the Chairman of the Supervisory Board and in his absence - by the Deputy Chairman; in the absence of the Deputy Chairman the Director chairs the Shareholders' General Meeting. If the latter are absent, the Shareholders' General Meeting elect the Chairman by a simple majority of votes. It is not necessary to convene the Shareholders' General Meeting if the shareholders with over 75% of voting shares take a relevant decision. Such a decision shall be equivalent to the minutes of the Shareholders' General Meeting and is deemed to be the decision thereof.

The Supervisory Board consisting of at least 3 and no more than 21 members defines the Company's policy and supervises the Company's activity based on the Charter and the decisions of the Shareholders' General Meeting. The members of the Supervisory Board are elected by the Shareholders' General Meeting for a term of four years. Their authority lasts till the election of a new composition of the Supervisory Board. The Shareholders' General Meeting is authorized to early re-elect the members of the Supervisory Board. The member of the Supervisory Board cannot simultaneously be a member of the Company's Directorate. The Supervisory Board elects a Chairman and a Deputy Chairman from among its members by a simple majority of votes. The Chairman of the Supervisory Board (his Deputy in his absence) is authorized to convene and chair the Supervisory Board sessions. The Supervisory Board session shall be valid if more than 50% of its members attend the session in person or are represented by proxy.

The Supervisory Board ensures that the company's management structure allows for adequate oversight and accountability, as well as a clear distribution of responsibilities. Involving all levels of government in risk management, clear segregation of authority and effective communication between different areas, contributes to transparency and achievement of set strategies and tasks related to the developed risk appetite, risk budget and risk management. The company's centralized risk management (ERM) department ensures the effective development, dissemination and implementation of risk strategies and risk appetite across the company.

The Board of Directors (the "Directorate") is the main decision-making body of the company and is jointly responsible for promoting the company's goals, culture, values and long-term success strategy and setting sustainable values for the shareholder by defining and overseeing the company. The Board of directors shall be represented by at least one member. The Supervisory Board appoints the Director, who is a legal and fully-fledged representative of the Company in relation with the third parties. The Company has Deputy Directors, who are members of the Board of Directors.

In addition, the company's activities are overseen by a supervisory board, which has full responsibility for creating an appropriate environment at the top of the company's management and overseeing compliance with the objectives, while the board of directors is responsible for managing and overseeing the company's day-to-day operations.

At the date of this report, in line with the “independence” definition criteria set by the Law of Georgia on Entrepreneurs, the Supervisory Board is comprised of one independent member: George Tkhelidze (Chairman); Nino Masurashvili (Deputy Chairman); Tornike Gogichaishvili and Meri Chachanidze; Zurab Pichkhaia (Independent member/Audit Committee Chairman);

The Supervisory Board has established its respective sub Committee Audit Committee. The sub Committee is comprised by the members of Supervisory Board; the independent member is Audit Committee Chairman. The Chairman of the Audit Committee will submit a report on the activities of the Committee to the meeting of the Supervisory Board, including the issues recommended by the Supervisory Board.

The members charged with governance don’t own shares of the Company.

The company recognizes the importance of ensuring diversity and considers it a significant benefit for its business to have a supervisory board and management team consisting of individuals with diverse backgrounds as it brings the necessary experience and competence, cultural diversity and diverse perspectives to meeting sessions and facilitates quality decision making.

There are two female members on the Supervisory Board. In addition, there are a number of talented women in key positions, who report directly to the General Director of the Company and other members of the Management Board within the Company. As at 31 December 2021, there were two female members on the Supervisory board, besides 29% of Company’s middle management roles were performed by females and58% of employees across the Company’s entire workforce were female.

SUPERVISORY BOARD BIOGRAPHIES AND MAIN RESPONSIBILITIES

GEORGE TKHELIDZE

Chair of the supervisory board

George was appointed to his current role at the Bank in November 2016, leading the Corporate and Investment Banking businesses. George is also responsible for the Bank's Wealth Management and leasing businesses since January 2021. George first joined TBC in 2014 as Deputy CEO and the Chief Risk Officer.

George has more than 20 years of experience in global financial services. Prior to joining TBC, he worked for Barclays Investment Bank, where he held the position of Vice President in the Financial Institutions Group (FIG), EMEA. Before that, he was an Associate Director in the Barclays Bank Debt Finance and Restructuring teams. During his career at Barclays in London, George worked on and executed multiple M&A, debt and capital markets transactions with European financial institutions. In his earlier career in Georgia, George served as the Chief Executive Officer at Aldagi, the leading insurance company in Georgia and held progressively senior positions at the same company prior to that.

George is Stanford Executive Program (SEP) graduate, holds an MBA from the London Business School and a Master of Laws degree (LLM) in International Commercial Law from the University of Nottingham.

NINO MASURASHVILI

Deputy chair of the supervisory board

Nino was appointed to her current role as Chief Risk Office of JSC TBC Bank in 2020. Prior to that, Nino held progressively senior positions at TBC after she first joined the Bank in 2000. Nino was appointed as Deputy CEO of the Bank in 2006, leading TBC's retail and MSME businesses at various times. Nino also serves on the supervisory boards of TBC's key subsidiaries, including TBC Uzbekistan, TBC Leasing, and Space International, TBC's digital banking platform.

Nino has more than 25 years' financial services and banking experience in Georgia. In her earlier career, Nino held various leadership and managerial positions at JSC TbilCom Bank and the Barents Group. Nino holds an MBA from the European School of Management in Tbilisi.

Tornike has more than 20 years' financial services and operations management experience in Georgia and Central and Eastern Europe. Prior to joining TBC, he has served as a Deputy CEO and Chief Operating Officer at the Bank of Georgia Group and served at various other key positions at the same institution before that. During 2008-2010, Tornike held the position of CFO at BG Bank Ukraine (a subsidiary of Bank of Georgia). Earlier in his career, Tornike held the position of the CEO of Aldagi, an insurance company in Georgia, served as the chief financial officer of UEDC PA consulting and held various managerial positions at BCI Insurance.

Tornike holds an MBA from the Caucasus School of Business and an executive diploma from Said Business School in Oxford.

TORNIKE GOGICHAISHVILI

Member of the supervisory board

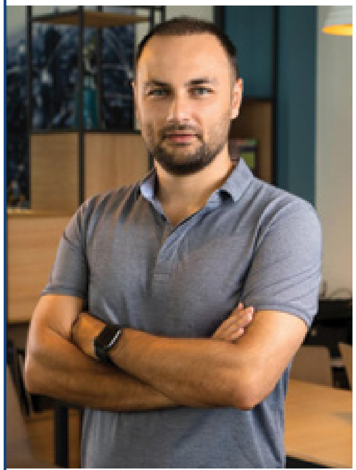
Meri Chachanidze has more than 18 years of experience in banking and investments. She joined TBC Bank in 2017 as the Deputy Director of Corporate and Investment Banking. She managed the bank's large corporate clients. In 2020 Ms.Cachanidze became Managing Director of TBC Capital (investment banking subsidiary of TBC Bank) and since 2021 is head of Investment Banking and WM at TBC Bank.

Prior to joining TBC, Meri held different positions from Investment Analyst to Chief Investment Officer at SEAF (a global investment firm headquartered in Washington, DC), which oversaw investment transactions in local and international markets.

Meri is Harvard Business School's executive program (AMP) graduate, is CFA Charter-holder and holds an MBA and BBA from European School of Management.

MERI CHACHANIDZE

Member of the supervisory board



Zurab is an Independent Supervisory Board Member at TBC Leasing in Georgia. Zurab acted as Deputy Chief Risk Officer at TBC Bank and was in charge of enterprise risk management and strategic projects. Mr. Pichkhaia also served as the Deputy Chief Financial Officer at TBC Bank overseeing the bank's financial risk management, profitability analysis and reporting functions. Earlier in his career, he held various positions in credit, underwriting and internal audit at VTB Bank Georgia, Bank Republic Société Générale Group and PrivatBank Georgia.

Mr. Pichkhaia holds a Bachelor's degree in Economics and a Master's degree in Business Administration (MBA) from the Georgian Technical University. In addition, he holds an MBA degree with a major in Finance from the University of Pennsylvania's Wharton Business School.

ZURAB PICHKHAIA

Independent member of the supervisory board / Chair of the audit committee

DIVISION OF RESPONSIBILITIES

As Chairman, George Tkhelidze is responsible for ensuring the Board as a whole performs a full and constructive role in the development and determination of the Company's strategy and overall commercial objectives. He also oversees the Board's decision-making processes. As the Chairman defines strategic goals and objectives, other board member's role is to provide leadership through the effective oversight and review of operations. They set the Company's risk appetite, monitor operational and financial performance and reporting, ensures the Company is adequately resourced with effective controls and remuneration policies, and check that there are appropriate succession planning arrangements in place.

Independent board member and head of audit committee Zurab Pichkhaia acts independently of management to fulfil its fiduciary duty to shareholders and ensure their interests are properly protected by effective internal controls, financial reporting, and an appropriate relationship with external auditors. His main responsibilities are presented below:

- To review the Company's internal financial controls and other internal controls to ensure the effectiveness of the internal control structure and to review any recommendations on changes to them;
- To monitor the integrity of the Company's financial statements to ensure they meet all statutory requirements and appropriate International Financial Reporting Standards;
- To provide oversight to the Company's compliance and anti-money laundering functions; and
- To consider the effectiveness and independence of internal audit activities and its relationship with the external auditors.

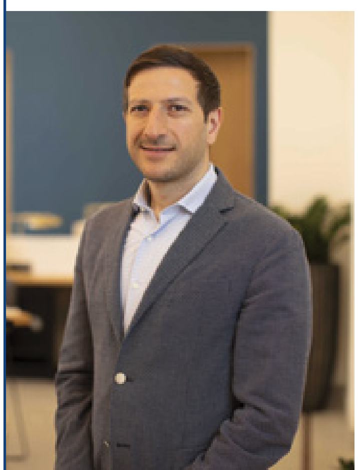
COMPANY MANAGEMENT BIOGRAPHIES AND MAIN RESPONSIBILITIES

GAIOZ GOGUA

Chief executive officer

Gaioz (Gaga) Gogua has been the CEO of TBC Leasing since 2017. He gained 18 years of experience working in the banking sector while working in various positions at TBC Bank. Gaga began his career on the TBC team in 2001, working as a Credit Officer. In 2003-2004 he held the position of the Head of the Credit Department, and in the following years he worked as the Director of various branches of TBC Bank in Tbilisi and the regions. In 2005-2008, Gaga was appointed a member of the TBC Marketing Committee. From 2008 to 2016, he served as Regional Director of various branches, and then, in 2017, was appointed as the Head of Regional Management. Gaga graduated from Georgian Technical University. Holds a bachelor's and master's degree in physics, as well as a bachelor's degree in management from TACIS Tbilisi and a master's degree in business administration from the Free University.

The CEO, Gaga Gogua, is responsible for the Company's day-to-day management and is in charge for proposing, developing and implementing the strategy and overall commercial objectives in close consultation with the Chairman and the Board.



NUGZAR LOLADZE

Chief financial officer

Nugzar Loladze joined TBC Leasing team as a CFO in 2014. At the same time, in 2017-2018, he was also the head of risk management at the company. Prior to joining TBC Leasing, in 2008 he started working in auditing company EY, in the direction of auditing, and before being promoted to the position of Senior Auditor, he held various positions in this area. In 2012, he moved to the same company as the head of the consulting department for transactions in the CIS countries. While working in these positions, he led and participated in the projects of the following large companies: BTA Georgia, VTB Georgia, SOCAR Energy Georgia, TAV Urban Georgia, National Bank of Georgia, Bank of Georgia, GRDC, Heidelberg Cement, KazTransGas, V-Tell and others. Nugzar holds a bachelor's degree in finance from Caucasus Business School.

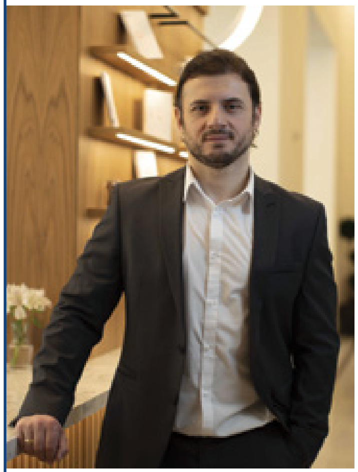
Nugzar serves as chief financial officer and is in charge of financial and operational departments of the company. He oversees daily operations of treasury, funding, budgeting, reporting, IT, PMO and procurement teams. CFO is responsible and directly engaged in implementing and introducing internal control systems, ensuring transparent disclosure of processes and transactions, reaching strategic and financial goals of the company.

ZURAB GUGUSHVILI

Chief commercial officer

Zurab Gugushvili was appointed Commercial director of JSC TBC Leasing in March 2021. Prior to joining TBC Leasing, in 2018, Zurab held the position of Commercial Director of the insurance company, Unison. Prior to joining the insurance industry, Zurab was a member of the TBC Group team for 12 years and has held various positions since 2006. Since 2008, Zurab's activities have been replaced by attractions and services for legal entities instead of expert supervision. During the last 9 years of his stay at TBC, Zurab Gugushvili managed the major directions of the corporate sector. Its main focus was on retail and the auto industry, although it periodically oversaw education, hospitality, commercial real estate and other sectors. With the growth of the group since 2016, Zurab was appointed head of the sector and about 20% of the corporate business fall under his direction.

Zurab Gugushvili is a Chief Commercial Officer and is managing income generating units. Attracting new customers and maintaining existing ones is the main target of CCO. Through introduction of new products and development on existing ones, Zura's main objective is to creat healthy long-term lease portfolio.



GIORGI MAISURADZE

Chief risk officer

Giorgi Maisuradze joined TBC Leasing team in 2018 as a Chief Risk Officer. Giorgi Maisuradze's total career history in the financial sector accounts 19 years, out of which almost half the period he has been working the field of risk management. He began his career at Baker Tilly, holding the position of Audit Manager. He then gained experience in various banks operating in Georgia: TBC Bank, Bank of Georgia, Bank Republic, ProCredit Bank, Privat Bank and Basis Bank. In 2010-2014, Giorgi worked as a Leading Specialist in the Credit Risk Management and Banking Supervision Divisions at the National Bank and later as a Chief Specialist in Credit Risk Management; In 2015-2018, he held leading management positions at Basis Bank. Giorgi was the Credit Risk Manager, Acting Head of Risk and Portfolio Analysis, and then Head of the same department. He gained his education at the Faculty of Economics of Tbilisi State University - holds a bachelor's and master's degree in macroeconomics.

As a CRO, Giorgi oversees processes in ERM and Problem Assets Management departments. He implements different control systems to ensure healthy lease portfolio, through effective underwriting processes and further healthy collection actions.

RESPONSIBILITY STATEMENT

The Management report and Financial Statement have been prepared in accordance with applicable laws and regulations.

We confirm that:

- The Financial statements prepared in accordance with International Financial Reporting Standards (IFRS) fully, accurately, and fairly reflect the assets, liabilities, income and expenses, the financial position, and profit or loss and cash flows of the Company.
- Management Report includes a fair review of the development and performance and conditions of the business and of the position of the Company, with a description of the principal risks and uncertainties, they face.
- The Management Report and Financial Statements, as a whole are fair, balanced, and understandable, and provide the information for the shareholders to assess Company's position, performance, and business strategy.

The responsibility statement was approved by the Supervisory board and Management Board of the Company.

Chair of the Supervisory Board
George Tkhelidze

31 May 2022

Chief Executive Officer
Gaioz Gogua

31 May 2022

RISK MANAGEMENT

PRINCIPAL RISKS AND UNCERTAINTIES

CREDIT RISK

Credit risk is the greatest material risk faced by the leasing company, given that the leasing company is engaged principally in traditional lending activities. The company's customers include legal entities as well as individual borrowers.

Credit risk relates to non-performance of a contractual obligation by a customer or a third party, which involves the payment of an unpaid amount within the agreed timeframe. An important component of credit risk is currency risk associated with the issuance of foreign currency denominated leases to non-hedged customers. Credit risk also includes concentration risk, which is the risk associated with the deterioration of the quality of a loan portfolio, which may arise from the creation of a large volume of portfolio on a single entity or related entities, or the concentration of a portfolio in certain industries. Losses may be further aggravated by unfavourable macroeconomic conditions as well.

During the global crisis caused by Covid-19 increased uncertainty and led to a significant economic downturn in many sectors, particularly in service industries such as fitness centres, hotels and leisure, real estate management and development. Such an economic downturn involves the risk of deteriorating financial condition of consumers and increasing credit risk.

A comprehensive credit risk assessment framework is in place with a clear segregation of duties among the parties involved in the credit analysis and approval process. The credit assessment process is distinct across segments, and is further differentiated across various product types to reflect the differing natures of these asset classes. Lending rules are developed by risk divisions that are independent of leasing and business development units. In the case of corporate and medium-sized business users, the leasing financing review process is conducted within specific sectoral cells, which accumulate deep knowledge of the corresponding sectoral developments.

The company uses a portfolio monitoring system to react promptly in the event of a portfolio deterioration. The monitoring system allows the identification of weaknesses in the loan portfolio, after which informed decisions are made in terms of risk management. Monitoring processes are tailored to the specifics of individual directions, as well as encompassing individual credit exposures, overall portfolio performance and external trends that may impact on the portfolio's risk profile. Additionally, the company uses a comprehensive portfolio supervision system to identify weakened credit exposures and take prompt, early remedial actions, when necessary.

The company's leasing portfolio is structurally highly diversified across customer types, product types and industry segments, which minimises the credit risk level. As of December 31, 2021, the business direction represented 88.3% of the t of the total portfolio, while the retail customers accounted for 11.7%, which includes fully auto leases. At the end of 2021, the top three sectors in the business portfolio are the construction, manufacturing and service sectors, where the concentrations are distributed as follows: 20%, 18% and 17%.

The most significant credit risk mitigation tool of a leasing liability is the co-payment, which must be provided by the lessee at the time of concluding the contract. At the same time, one of the key components of credit risk management is the effective management of a financed leasing asset, which avoids the expected risk of material and technical depreciation. Additional collateral for leasing contracts may include: real estate, mortgages on assets and shares on the balance sheet, third party guarantees, and the option of repurchase provided by the supplier.

The entire TBC Leasing Portfolio is secured in all industry segments where the subject of collateral is financed leasing assets itself. As of December 31, 2021, the Company's portfolio collateral ratio was set at 107%. Correct determination of the amount of participation in funded assets ensures a high repayment ratio.

Since the beginning of the Covid-19 pandemic, TBC Leasing has carried out deferral of principal and interest payments to individuals, MSMEs and corporate clients that have been adversely affected by universal lockdowns. According to the strategy, some clients were given the right to defer payment, both in terms of principal and interest. Undertaken strategy proved itself during the 2021, after the completion of the payment holiday period, since only insignificant percentage of portfolio deteriorated out of those leases that were granted the deferral of principal and interest.

In addition, TBC Leasing actively conducts stress tests and scenario analysis to test clients' resilience to various stressful conditions. Stress tests include assumptions about local currency revaluations, GDP growth, sectoral growth, inflation, interest rate changes, real estate and commodity prices. TBC Leasing conducts intensive financial monitoring to identify clients with weakened financial and business prospects in order to offer them a restructuring plan tailored to their individual needs.

TBC Leasing revised the underwriting standards in all industry segments to address the Covid-19 pandemic and tightened them appropriately. The revision and tightening of standards, among other measures, included the following: changes in delegation of decision-making and approval rights to vulnerable sector borrowers, the risk factor used on the individual clients' incomes of affected sectors, and the integration of macroeconomic sector expectations into the evaluation process for business clients.

CREDIT RISK CAUSED BY EXCHANGE RATE CHANGES

TBC Leasing faces the credit risk posed by exchange rate fluctuations because a large portion of the funds financed in the Company's portfolio are denominated in foreign currency and the potential significant depreciation of the lari is one of the significant risks that could adversely affect portfolio quality due to the high foreign currency concentration in the portfolio. Non-hedged borrowers may incur a greater debt burden as their foreign currency denominated liabilities increase.

A significant portion of TBC Leasing's portfolio is denominated in foreign currencies, mostly in USD and EUR, which stood at 56% as at 31 December 2021. Income of most of the customers who have lease agreements in foreign currency about 75% is represented in the national currency, due to which they are not protected from fluctuations in the GEL exchange rate. However, during 2021, the GEL exchange rate strengthened by almost 6% against the dollar, which had a positive impact on clients solvency.

The company pays special attention to currency induced credit risk given that a large part of its exposure is denominated in foreign currency. Currency depreciation is often monitored to ensure that the action plan is implemented quickly if necessary. Resistance to certain exchange rate depreciation is also included in the lending standards, which implies a buffer on the risk of currency depreciation for non-hedged customers.

TBC Leasing uses conservative lending standards for non-hedged clients whose funds are denominated in foreign currency to ensure that they can withstand a certain level of exchange rate, in addition to measures in place during the financing process.

Leasing companies, including TBC Leasing, were affected by a new regulation imposed by the NBG in January 2019, when the efforts oriented to reduce the economy's dependence on foreign currency financing increased the cap to GEL 200,000, under which loans must be disbursed in local currency only.

CONCENTRATION RISK

TBC Leasing is exposed to a concentration risk, defined as the potential deterioration in portfolio quality due to the large exposures or individual industries.

As a rule, leasing companies operating in the emerging market face concentration risks, both for individual customers and for sectors. TBC Leasing is funded by legal entities and individuals whose exposure at default implies increased credit losses and high cost of impairment reserves. TBC Leasing Portfolio is well diversified by sectors, leading to a moderate risk of sectoral concentration risk. However, if the total debt on the main risk carriers increases, the risks will increase accordingly.

The company has the means to effectively manage concentration risk, in particular the portfolio of individual entities and sectoral concentrations. TBC Leasing is subject to concentration limits for individual entities and sectors, and is focused on optimizing the structure and quality of this portfolio. In addition, we have risk appetite limits for the top 20 borrowers, which are monitored on a monthly basis. TBC Leasing continuously monitors concentration risk for individual borrowers as well as sectors and key risk carriers and sets limits to mitigate risk. Within the framework of risk appetite, the company sets limits for both individual and sectoral concentrations. Risk appetite criteria are reviewed once a year to reduce the risk of concentration arising. Effective monitoring tools are used to ensure compliance with the limits. Due to the uncertainties caused by the Covid-19 pandemic, strict monitoring was carried out to evaluate the performance of the top 10 corporate borrowers based on macro expectations.

TBC Leasing loan portfolio is diversified and the maximum portfolio volume in one of the largest sectors (construction) is 20% of the leasing portfolio as of December 31, 2021. The given figure is reasonable and shows adequate diversification of the leasing portfolio. By the end of 2021 the leasing portfolio of the 10 and 20 largest borrowers accounts for 18.7% and 28.5% of the total portfolio respectively, which is comparably high for our risk appetite and management closely monitors process and plans to take further corrective actions in 2022 for deconcentration purposes of the portfolio.

WAR IN UKRAINE INDUCED RISK

While inflows to the Georgian economy are quite diversified, the country is still vulnerable to geopolitical and economic developments in its neighbourhood. In particular, the Russian invasion of Ukraine and the consequent sanctions imposed on Russia have an adverse impact on the Georgian economy.

As of 2021, Ukraine and Russia's share of Georgia's exports, remittances, tourism, and FDI inflows amounted to around 21%. Specifically, Ukraine and Russia accounted for 7% and 14% of exports, 4% and 18% of remittance inflows, and 15% and 12% of total tourism inflows, respectively. Ukraine and Russia's share of FDI exposure was lower at 1% and 6,%, respectively, mainly comprised of reinvested earnings from previous waves of FDI. Importantly, over half of Georgia's exports to Russia and Ukraine are re-exports, while around 50% of tourism and remittance inflows are spent on imports. These factors decrease the overall net negative impact from lost inflows. At the same time, the adverse spill over effect from Georgia's other economic partners should also be taken into account.

Before the Russian invasion of Ukraine, TBC Capital estimated that the Georgian economy would grow by around 6.0% in 2022, 5.5% in 2023 and 5.0% in 2024 – close to its trend rate of around 5.2%. According to the World Bank's projections1 as of January 2022, the Georgian economy was forecast to grow by 5.5% and 5.0% in 2022 and 2023, respectively. In fact, the January growth data released by Geostat shows a very strong growth momentum. Although the 18.0% real year-on-year expansion was mainly on the back of a low base effect, growth was also strong at 4.4% when compared to January 2020, before the pandemic started, and much higher than in prior months when looking at the same, consistent measurement. However, taking into account Georgia's vulnerability to developments in Ukraine and Russia, there will be adverse implications for the growth outlook, as well as for the other macro variables, which may also negatively affect the TBC Leasing's capital adequacy, liquidity and credit risk.

FRAUD RISKS

External and internal fraud risks are part of the inherent operational risk inherent in TBC Leasing's business. Considering the increased complexity and diversification of operations, together with the digitalisation of the banking sector, fraud risks are evolving. Unless proactively managed, fraud events may materially impact the company's profitability and reputation.

External fraud events may arise from the actions of third parties against the company, most frequently involving events related to banking cards and cash. Internal frauds arise from actions committed by the company's employees, and such events happen less frequently. None of the cases had a material impact on the company's profit or loss account.

The company actively monitors, detects and prevents fraud risks. The main direction is to minimize the risk by introducing double control and other preventive mechanisms in the procedures. Continuous monitoring processes are designed to detect unusual actions in a timely manner. The risk and control self-assessment process focuses on the residual risks of the underlying processes that can be remedied. As a result of our constant efforts to monitor and mitigate fraud risks, despite the great complexity of internal processes, the company ensures timely detection and control of fraudulent activities.

ENTERPRISE RISK MANAGEMENT

A centralised Enterprise Risk Management (ERM) function is in place to ensure the effective development, communication and implementation of risk strategy and risk appetite of the company. The ERM function facilitates cross-risk activities such as aggregation, analytics and reporting and addresses issues that are not specific to a single type of risk. ERM ensures harmonization of procedures to implement optimal prevention mechanisms, facilitates the logical and efficient movement of management issues between directions, facilitates the resolution of issues that require the involvement of different departments.

Stress-testing exercises are one of the crucial tools for effective risk identification, measurement and mitigation. TBC Leasing relies on the scenarios predicted by macroeconomists at the group level and analyzes them to consider possible outcomes and keep the company with adequate capital.

Consistency of risk management practices is also an important task of the ERM. A risk management function dedicated to promoting consistency ensures that risks are identified, measured and governed in an optimal manner.

Generating an adequate return on risk, plays a crucial role in the sustainability of the business model. Risk inputs for pricing are designed in a way to serve as a backdrop against excessive risk taking and guarantee that the company takes adequately priced risks.

CREDIT RISK MANAGEMENT

The major objectives of credit risk management are to have smooth processes in the company that ensure that decisions made at the level of individual transactions are consistent with the level of acceptable risk and to put in place a sound credit approval process for informed risk-taking and procedures for effective risk identification, monitoring and measurement.

LEASING APPROVAL

TBC Leasing strives to ensure a sound credit-granting process by establishing well-defined lending criteria and building up an efficient process for the assessment of a customer's risk profile. TBC Leading has a comprehensive credit risk assessment framework with a clear segregation of duties among parties involved in the credit analysis and approval process. The funding assessment process is distinct across segments, and is further differentiated across various product types to reflect the differing natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis. After a thorough assessment of lessees' requirements, the credit department prepares a presentation containing certain key information in relation to the potential borrower and submits it for review to the credit risk management department. The risk manager ensures that the project analysis is complete, all risks and mitigating factors are identified and adequately addressed.

A multi-tiered system of loan approval committees is in place with different approval levels to consider the lessee's overall indebtedness. These committees are responsible for reviewing credit applications and approving exposures, with different committees based on the size and risk of the loan. At the highest level, the Chief Executive Officer, Commercial Director and Chief Risk Officer are involved. In addition, if the amount of the borrower's loan application exceeds 15% of TBC Leasing Capital, it would require review and approval by the Supervisory Board Risk Committee. The decision to finance micro, small, medium and retail leasing is made by the Credit Risk Management Department, where the application is reviewed by the committee within pre-defined limits. Internal scorecard models and ratings submitted by the credit bureau are used for decision making. Different scorecard models are developed based on the type of product and the borrowers' credit profile, taking into consideration various internal and external data. The performance of scorecard models is closely monitored to ensure that decisions are in line with predefined risk limits.

LEASING MONITORING

TBC Leasing's risk management policies and processes are designed to identify and analyse risk in a timely manner and to monitor adherence to predefined limits by means of reliable and timely data. TBC Leasing dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various industry segments. The Company uses a robust monitoring system to react promptly to macro and micro developments, identify weaknesses in the credit portfolio and outline solutions to make informed risk management decisions. Monitoring processes are tailored to the specifics of industry segments, as well as encompassing individual funding monitoring, overall portfolio performance and external trends that may impact on the portfolio's risk profile.

RESTRUCTURING AND COLLECTIONS

TBC Leasing uses a comprehensive portfolio supervision system to identify weakened credit exposures and take prompt, early remedial actions when necessary. Detailed review of processes in an internal committee review format takes place as soon as 30 calendar days are overdue: when the borrower does not meet the agreed payments or the borrower's financial standing is weakened, potentially jeopardizing the repayment of the credit. Dedicated restructuring and recovery units manage weakened borrowers, with collection and recovery strategies tailored for business directions and individual exposure categories. The restructuring unit's primary goal is to rehabilitate the borrower and transfer the exposure back to the performing category. The sophistication and complexity of the rehabilitation process differs based on the type and size of the exposure. Corporate and SME borrowers are transferred to the troubled assets department when there is a strong probability of a sharp deterioration in the company's revenue, insolvency, bankruptcy, a sharp decline in the value of assets, etc. Loan recovery plans may include all available sources of loan recovery, such as selling the borrower's assets, realizing collateral or payments under guarantees.

In the process of leasing debt collection, the purpose of the troubled assets department is to develop a payment strategy and agree with the borrower to withdraw as much money as possible or negotiate the payment of the leasing liability by selling or owning the collateral.

The Rehabilitation and Troubled Assets Management Department monitors financial overdue borrowers, prepares relevant projects, transfers them to the committee, and takes appropriate action after approval or requesting additional terms. Their efforts, both with the resources of the department itself and with the involvement of the executive, are aimed at maximizing the removal of leasing obligations.

Leasing repayment strategies are determined by the amount of leasing, the specifics of the business and the financial condition of the company. Individual strategies are tailored to different subgroups of users and reflect appropriate risk levels so that greater effort is dedicated to customers with a higher risk profile.

Leasing companies will be transferred to the Troubled Assets Management Department based on a substantive review at a 60-90 days past due.

After a transfer to the Troubled Assets Management Department, when the company is unable to negotiate with the borrower on terms acceptable to the parties, the leasing company may initiate collateral repossession, which is usually a standard process with limited legal complications, and may include court, arbitration or notary procedures. Qualified incumbent experts and lawyers work in the rehabilitation and troubled assets management units for efficient accomplishment of litigation and repossession processes.

MEASUREMENT OF EXPECTED CREDIT LOSSES

Estimating the expected loss, monitoring and analysis in different business directions or products are the key components of the strategy.

From January 2018, the company moved to a new provisioning methodology in line with IFRS 9 requirements. The updated methodology makes it possible to estimates expected credit losses with the incorporation of forward-looking information.

The project was undertaken at the group level with the assistance of the Big Four member company, Deloitte. Risk management, finance and IT departments were responsible for the implementation of new methodology and respective departments from TBCL side were actively involved during the implementation process at the company level. The new models are more complex and make it possible to incorporate expectations of macro developments based on predefined scenarios. The expected credit loss (ECL) measurement is based on four components used by the company: (i) probability of default ("PD"); (ii) exposure at default ("EAD"); (iii) loss given default ("LGD"); and (iv) discount rate. The company uses a three-stage model for the ECL measurement and classifies its borrowers across three stages:

- Stage I – the company classifies its exposures as Stage I if no significant deterioration in credit quality has occurred since the initial recognition and the instrument was not credit-impaired when initially recognised;
- Stage II – the exposure is classified as Stage II if any significant deterioration in credit quality has been identified since the initial recognition but the financial instrument is not considered credit-impaired;
- Stage III – the exposures for which the credit-impaired indicators have been identified are classified as Stage III instruments.

The ECL amount differs depending on exposure allocation to one of the three stages:

- Stage I instruments – the ECL represents that portion of the lifetime ECL that can be attributed to default events occurring within the subsequent 12 months from the reporting date.
- Stage II instruments – the ECL represents the lifetime ECL, i.e. credit losses that can be attributed to possible default events during the whole lifetime of a financial instrument. Generally, lifetime is set equal to the remaining contractual maturity of the financial instrument. Factors such as the existence of contractual repayment schedules, options for the extension of repayment maturity and monitoring processes held by the company affect the lifetime determination.
- Stage III instruments – a default event has already incurred and the lifetime ECL is estimated based on the expected recoveries.

The Company actively reviews and monitors the results produced from IFRS 9 models to ensure that respective results adequately capture the expected losses.

RESPONSE TO THE POST-COVID REALITY

To respond to the post-Covid reality, the company examined the performance of those clients that have benefited from the deferred payment scheme during the outbreak of Covid-19 pandemics. It should be noted that only very insignificant portion of the COVID portfolio required additional refinancing or restructuring. As soon as the pandemic spread, the company provided universal deferral of payments, and later grace periods were applied to individuals and legal entities that were negatively affected by the government's so-called "lockdowns". The government has developed a special support program for the affected sectors such as restaurants, hotels, etc. The strategy has proved itself since many MSME clients received substantial relief to strengthen their liquidity profile.

The company monitored and analysed Covid affected portfolio on a monthly period and supported clients actively through the whole process, but weakening of Covid and stabilization taking place made us confident that previously Covid affected portfolio fully recovred from its negative affect.

FINANCIAL RISK MANAGEMENT

The main goal of financial institutions is to increase profitability, which the company can achieve with increased risk. Therefore, effective management of these risks is key to TBC Leasing. Like other financial institutions, TBC Leasing faces financial risks, experiencing a serious impact that is significantly related to the characteristics of leasing as a service and the economic model.

The company faces risks due to internal and external factors, and as a result of identifying these risks, any financial instrument that is used on a daily basis in TBC Leasing serves to prevent or reduce material losses.

TBC Leasing operates within the pre-designed principles to achieve its objectives, which are discussed in detail below.

LIQUIDITY RISK

Liquidity risk for TBC Leasing is primarily insolvency or solvency only at high cost. Since the main activity of the company is leasing financing. Company's goal is to ensure the satisfaction of the parties in accordance with the expected demand and to provide support for the core business. By measuring and identifying the extent of the risk, the company is able to take the necessary action immediately by developing a financing plan in the event of destruction and unforeseen additional circumstances, based on the experience and support of successful partnerships with local banks and foreign financial institutions.

TBC Leasing uses several methods to measure the level of liquidity risk, including liquid assets and cash flow. Individual and combined assessments bring cash flow into line with the outflow in the short, medium and long term, taking into account the resources derived from financial activities - from the coverage of the lease agreement and the financing available to the company. In the case of liquid assets, the company considers easily available balance sheet assets that are not pledged and can be freely disposed of, for example, such assets are term deposits, deposit agreements and other instruments placed in different banks for the company.

Based on the pre-determination of internal institutional and environmental factors, the company conducts liquidity stress testing by analysing the driving forces of the traffic flow and the business landscape and, as a result of forecasting, establishes strategic alternatives based on light, systemic and strong impacts. In addition, TBC Leasing tests liquidity against the volatility of service or funding, similar to scenarios based on Covid influence.

Along with the difference analysis, the Company assesses and ensures risk compliance control over a period of 3 months to 1 year through financial indicators - current ratio, liability ratio, net stable financing ratio.

The average maturity of TBC Leasing Portfolio is 36 months, which maintains its positive liquidity portfolio in the short and medium term. The company intends to introduce new products with a maturity of 72-120 months, as a result of which the liquidity difference will be balanced for long-term items.

Liquidity ratios for existing and probable forecasts are reported to the company's management, supervisory board, founding company and creditors.

TBC Leasing usually limits the level of cash to obtain maximum profitability and ensure effective returns on existing assets. To avoid a liquidity crisis during the pandemic, management decided that the company would maintain a high level of liquidity (more than 10% of total assets) and as indicators confirm this decision had only a minimal negative impact on the company's financial soundness and profitability.

A thorough risk assessment, detailed cash flow forecasting and a diversified investment strategy enable the company to achieve long-term organizational and financial goals.

CAPITAL RISK

The company faces capital risk, which means that the company's failure to meet the minimum capital adequacy requirements, which could put the company in an "event of default" and lenders might demand the acceleration of the existing loans.

Leasing is not a regulated business in Georgia and therefore leasing companies are not subject to the minimum regulatory capital requirements set by the National Bank. However, in general the leasing business is characterized by high leverage and low capitalization. Nevertheless, the company has minimum capital adequacy requirements from international and local lenders, the highest of which is 9% for Tier-1 capital and 18% for Tier1 + Tier2 capital. Given that 51% of the company's assets are denominated in foreign currency, there is a risk that in the event of an instantaneous depreciation of the lari, the established limits may be violated. It should be noted that in case of GEL 10% depreciation, the reduction of the capital adequacy limit is expected to be 0.45pp.

The company is constantly conducting stress and sensitivity analyses to proactively identify and create the required capital buffers. At the same time, the company has immediately available pre-approved additional issue capital in the amount of GEL 2.5 million, which will be used if necessary.

Capital adequacy is monitored on a daily basis. The Company's management aims to maintain an adequate level of capital, both to ensure the smooth running of the Company's business and to comply with the requirements set by the lenders.

INTEREST RATE RISK

Interest rate risk arises from potential changes in market interest rates that can adversely affect the value of the company's financial assets and liabilities. This risk can arise from maturity mismatches of assets and liabilities, as well as from the repricing characteristics of such assets and liabilities.

During 2021, TBC Leasing offered variable as well as fixed interest rate leasing in local currency to its customers. Agreements in floating interest rate are indexed to the market interest rate of the so-called monetary policy of the National Bank of Georgia. The floating interest rate leases and shares issued by the company are consistent with the variable rate loan liabilities acquired by the company, with the variable rate investment attracted by the company being financed by leasing agreements with indexed interest rates. As a result, a fair ratio was achieved - income from financial activities varies according to financing costs, while leasing fees are reduced according to the reduction of market rate to consumers, thanks to this approach the company has been able to improve key valuation indicators.

The analysis of the difference between interest rates is based on an estimate of the maturity of receivables and payables. The company aims to maintain a normal type of profitability curve, which is achieved by hedging long-term and short-term component matching components.

In addition to the hedging approach, along with credit risk management, the company maintains a diversification strategy and ensures portfolio diversification by industry.

CURRENCY RISK

TBC Leasing holds assets and liabilities denominated in foreign currencies, thus operating a floating exchange rate market. A change in exchange rate may affect the value of a company's assets and liabilities denominated in foreign currencies. Currency risks arise from the improper position of foreign assets and liabilities, as a result of which sudden fluctuations and volatility can pose a risk and cause a significant loss of profitability. To prevent this, risk management is carried out on a daily basis by adhering to the permissible risk limits.

Because TBC Leasing is exposed to foreign exchange risks, it has corporate policies and procedures in place to address the impact. An important step in properly defining a policy and taking adequate action is to identify risks at the right time, as financial risks cannot be managed without proper risk measurement methodology and practices based on all existing facts and expected assumptions in the company.

According to the methodology, the open currency positions of the main operating currency - Euro and Dollar - are monitored individually and collectively. Adequate restrictions apply to positions and their proper performance is presented at the company management and team level.

The degree of currency risk impact on the Company is assessed by the controlling parties in terms of individual currency risk ratios, total currency risk ratios and open currency position ratios. The company limits the foreign exchange exposure according to its capital, its maximum allowance is set at 10%.

Fluctuations in daily activities and currency can cause losses which is eliminated by managing currency exposure, assessing expectations and hedging. The company aims to maintain a closed position, for which it uses the financial instruments produced. Hedging operations are performed in accordance with the Company's hedging and risk management strategy and assume the use of forward transactions, swap contracts, spot conversions and other financial products available in the Georgian foreign exchange market. Financial activity, changes in leasing portfolio, and attracted foreign investment may be subject to hedging from the moment of entering into the relevant relationship.

As a result, a closed currency position protects the company from unwanted fluctuations and helps to avoid potential losses when the GEL strengthens or depreciates.

In recent years, TBC Leasing has maintained a hedged position to hedge against currency risks, with the aggregate open currency position fluctuating within the average of 4% of total assets.

NON-FINANCIAL RISK MANAGEMENT

OPERATIONAL RISK MANAGEMENT

One of the main risks that the Company faces is operational risk, which is the risk of internal and external fraudulent events, inadequate processes or products, business destabilization and system malfunctions, human error or damage to assets. Operational risk also includes damage caused by legal, reputational, compliance or cybersecurity risks.

The company is exposed to many types of operational risks, including: fraudulent and other internal or external criminal activities; breakdowns in processes, controls or procedures; system failures or cyberattacks from an external party with the intention of making services or supporting infrastructure unavailable to its intended users, which in turn may jeopardize sensitive information and the financial transactions.

Moreover, the Company is subject to risks that cause disruption to systems performing critical functions or business disruption arising from events wholly or partially beyond its control, such as natural disasters, transport or utility failures etc., which may result in losses or reductions in service to customers and/or economic losses.

The operational risks discussed above are also applicable where the Company relies on outside suppliers of services. Considering the fast-changing environment and sophistication of both banking services and possible fraudsters, the importance of constantly improving processes, controls, procedures and systems is heightened to ensure risk prevention and reduce the risk of loss to the Company. An important mechanism is the Risk and Control Self-Assessment (RCSA), which aims to identify potential deficiencies in operations and processes to suggest appropriate remedial measures, including improving processes and procedures, as well as working with insurance companies to transfer risks.

Operational risk case identification is reported to the parent company level, their systematic analysis is performed and future prevention and current remedial ways are sought.

ANTI-MONEY LAUNDERING (AML)

The company has a high standard against Money Laundering and Terrorist Financing (AML / CTF) and requires all employees and management to adhere to these standards to prevent the use of TBC Leasing products and services for money laundering / terrorist financing. The company's AML / CTF program is based on applicable legal and regulatory requirements that comply with FATF recommendations, EU regulations and best practices.

The company's AML / CTF compliance program, which has been implemented, includes written policies, procedures, internal controls and systems, including but not only: policies and procedures to ensure compliance with AML laws and regulations; KYC Preventive Measures (Customer Due Diligence Procedure); Rules for user identification and verification; User risk classification and risk categories; Checking the user according to the list of terrorists, special categories and banned persons; List of financial and other sanctions, monitoring of deals / transactions; And procedures for monitoring and reporting the suspicious activities of the Company's customers; Regular staff training and awareness raising;

Within the second line of defence, the Legal Department, which performs the AML and compliance functions, ensures risk management in accordance with the risk appetite defined by the company and promotes a strong risk culture across the organization.

The company has developed and approved the AML / CFT Framework Policy, which is in full compliance with both Georgian and international legal requirements and regulations. The new regulation expands the definition of a politically active person (PEP), imposes additional requirements on the Know Your Client (KYC) prevention measures.

LEGAL

The Company's legal department manages all legal and related matters concerning the activities of the Company. In accomplishing its mission to ensure that such activities fully conform with all applicable laws and regulations, the legal team delivers a wide array of professional legal services: it (i) interacts with internal and external clients, outside counsel, government and regulatory entities; (ii) issues memos and opinions; (iii) drafts standardized and individual contracts; (iv) prepares corporate resolutions; (v) provides regulatory updates; and (vi) represents the Company in courts (other than problem lease cases), other dispute resolution venues and before other third parties. The legal team, which comprises lawyers with diverse backgrounds and experience, consists of the following key divisions: Legal Support and Administration; Credit Administration; Investor relation/cross border transactions; Corporate governance; AML/ Compliance; Each division functions within its clear and distinct job descriptions corresponding to relevant knowledge, skill and capabilities of its members. The department ensures effective execution of its duties through different processes and procedures.

Chief Lawyer of the company - (Head of Legal Department) manages the Legal Department. It sets out key business objectives and functions for all legal groups, implements policies and ensures effective performance of duties. It is accountable to the Director of Risk Management for the development of legal risks, their mitigation strategies and effective management.

BEHAVIOR RISK

Behavioural risk is defined as the risk of delivering objective results to consumers and other stakeholders.

The TBC Leasing Code of Conduct sets high ethical standards for all employees, which must be observed by each employee.

Employees carefully fulfil the responsibilities imposed on them. In order to maintain the trust and persuasiveness of the company's operations, such as: trust, loyalty, prudence and caution, employees are crucial.

The company's management realizes that they are accountable to both local and international investors and needs to develop rules and mechanisms to protect consumers to maintain investor and financial market confidence. The directors of the company try to introduce the principles of good behaviour and have active communication with employees in this regard.

The TBC Leasing Risk Department, Operations Department and HR Division work together to create a unified framework for behavioural risk and assist business and other departments:

- Implement and manage policies and procedures to ensure that the relevant departments and individual staff comply with the regulatory provisions and the Code of Conduct, Code of Ethics and Company Rules;
- For the customer, the information provided by the employee about the product to be accurate and complete, this information is provided (both in written and oral form) easily and clearly, according to the category of the customer.
- It is important to have such conversations and emails with clients; maintain track records that contain sales-related information, including customer attraction information and complex products on offer for existing and potential customers.
- Provide timely introductory training on appropriate behaviour for new employees. It is important that staff are periodically trained to learn about relevant standards that are being developed and updated;
- Establishing a healthy corporate culture, promotes employee openness, to speak openly. Specifically, this means introducing processes to prevent and detect conflicts of interest, creating ethical incentives and bonuses, and adapting motivation and disciplinary practices.
- The above approach ensures that behavioural risk management is not limited to risk management units, but also fully covers sales departments and fully integrates appropriate behaviour into the skills needed to work.

STAFF TURNOVER

Staff turnover results in businesses having a limited number of employees for specific period who can effectively manage processes and reach targets set by the management. So the company's management and HR division actively monitors reasons of turnover and analyzes different metrics on a monthly basis, in order to minimize such cases. Despite the fact that in 2021 financial year employee turnover was a challenge for the company, key staff and specifically middle management was maintained and through their effort and experience company was able to reach its strategic goals. In 2022 management and chief human resource manager set as their prime target to minimize employee turnover and as much as possible concentrate on employee happiness.

FINANCIAL

PERFORMANCE REVIEW

KEY FINANCIAL HIGHLIGHTS

INCOME STATEMENTS HIGHLIGHTS

In thousands of Georgian Lari	2021	2020	Change, y-o-y
Income on investment in leases	**57,095**	**45,578**	**25.3%**
Income From Operating Leasing	2,444	3,218	-24.1%
Interest expense	**(24,786)**	**(25,466)**	**-2.7%**
Direct leasing costs	(9,044)	(8,220)	10.0%
Net lease income	**25,709**	**15,110**	**70.1%**
Credit loss allowance for net investment in finance lease	3,084	(8,117)	-138.0%
Credit loss allowance for other financial assets	(8,514)	(2,768)	207.6%
Administrative and other operating expenses	**(10,174)**	**(9,277)**	**9.7%**
Interest income on bank deposits	2,774	2,438	13.8%
PROFIT / (LOSS) FOR THE YEAR	**12,140**	**(3,158)**	**-484.4%**

BALANCE SHEET HIGHLIGHTS

In thousands of Georgian Lari	31.12.2021	31.12.2020	Change, y-o-y
Investment in finance lease	253,752	281,321	-9.8%
Credit loss allowance	(7,309)	(10,487)	-30.3%
Net investment in finance lease	**246,443**	**270,834**	**-9.0%**
Advances towards leasing contracts	**28,922**	**10,281**	**181.3%**
Assets repossessed from terminated leases	9,924	7,583	30.9%
Property and Equipment	4,194	6,670	-37.1%
Investment Property	2,385	2,359	1.1%
Other financial assets	21,089	7,166	194.3%
Total assets	**370,984**	**406,471**	**-8.7%**
Loans from banks and financial institutions	207,635	264,246	-21.4%
Debt Securities in issue	**58,342**	**58,114**	**0.4%**
Subordinated loans	33,691	35,412	-4.9%
Advances received from customers	16,918	8,623	96.2%
Total liabilities	**323,087**	**370,978**	**-12.9%**
Total equity	**47,897**	**35,493**	**34.9%**

INCOME FROM LEASES

The net leasing income generated by the company during 2021 increased significantly by 70.1% compared to the previous year and amounted to GEL 25.7 million. As we can see from income statement highlights section, main driver was income generated from financial leased, while income from operating leases has declined because of the decreasing portfolio in operating lease assets.

INTEREST EXPENSE

Economic stability and clear future vision enabled company to improve cash management and properly plan its funding, which resulted in decreased interest expense compared to previous year by 2.7%. To further analyse funds management and show improved efficiency, table below is presented where cost of fund ratio is shown and compared:

In thousands of Georgian Lari	**2021**	**2020**	**Change, y-o-y**
Interest Expense	24,786	25,466	-2.7%
Average Funds Balance	322,506	304,406	5.9%
COF	**7.7%**	**8.4%**	**-0.7 pp**

COF is improved significantly and main reason for it is that company transferred local high interest bearing funds received in 2020 during liquidity problems into moderately low interest bearing foreign funds, which resulted in decreased COF ratio during 2021 FY by 0.7 pp.

NET LEASE INCOME

Above-mentioned efficiencies in interest income and interest expense resulted in significantly improved net lease income and net interest margin ratio:

In thousands of Georgian Lari	**2021**	**2020**	**Change, y-o-y**
Income on investment in leases	57,095	45,578	25.3%
Interest income on bank deposits	2,774	2,438	13.8%
Interest expense	(24,786)	(25,466)	-2.7%
Net lease income	**35,083**	**22,550**	**55.6%**
NIM	**13.4%**	**8.3%**	**5.1 pp**

As we can see from the table NIM has increased up to 13.4% and exceeded 2020 results by 5.1 pp. Drastic changes and improvements are attributable to increased rates on restructured leases and previously posted modification losses reversals.

CREDIT LOSS ALLOWANCE

The total reserve expenditure for 2021 was GEL 5.4 million, 50.1% less than previous year. The company managed to improve portfolio quality significantly and stabilize quality indicators, which resulted in improved cost of risk ratio of 2.1%:

In thousands of Georgian Lari	2021	2020	Change, y-o-y
Credit loss allowance for net investment in finance lease	(3,084)	8,117	-138.0%
Credit loss allowance for other financial asset	8,514	2,768	207.6%
Total Provision Charge	**5,430**	**10,885**	**-50.1%**
COR	**2.1%**	**4.0%**	**-1.9 pp**

ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Post pandemic period was used to optimize and improve efficiency of administrative and operating expenses, while expenses increased up to 10%, corresponding income exceeded it and resulted in decreased cost to income ratio of 51.9%. While staff costs and direct costs increased in the range of 10%, other operating expensed exceeded last year results by 23.8%, which is attributable to tax asset provision charges.

In thousands of Georgian Lari	2021	2020	Change, y-o-y
Net leasing and operating income	37,035	24,661	50.2%
Staff Expenses	5,491	4,998	9.9%
Depreciation and Amortization charge	1,539	1,740	-11.6%
Other Administrative and Operating Expenses	3,144	2,539	23.8%
Total Administrative and Operating Expenses	**10,174**	**9,277**	**9.7%**
Direct leasing costs	9,044	8,220	10.0%
Cost to Income	**51.9%**	**71.0%**	**-19.1 pp**

NET PROFIT

As mentioned in previous sections company achieved historically the highest net income for the period, which resulted in the highest return on average equity level and significantly improved pre provision return on average equity and assets

In thousands of Georgian Lari	2021	2020	Change, y-o-y
Net Income	12,140	(3,158)	-484.4%
Average Equity	41,118	38,857	5.8%
ROAE	**29.5%**	**-8.1%**	**37.6 pp**
ROAE before expected credit loss allowances	**42.7%**	**19.9%**	**22.8 pp**

In thousands of Georgian Lari	**2021**	**2020**	**Change, y-o-y**
Net Income	12,140	(3,158)	-484.4%
Average Assets	374,229	378,757	-1.2%
ROAA	**3.2%**	**-0.8%**	**4.0 pp YoY**

Company monitors its capital adequacy ratios on a daily basis, as of year-end capital and total capital ratios were as follows:

Capital Adequacy	**2021**	**2020**	**Change**
Tier 1	14.7%	11.3%	30.10%
Tier2	25.1%	22.5%	11.60%

BOND COVENANTS

Compliance with the terms of the agreement between TBC Leasing and the bondholder is given in the table below:

Type of Covenant	**Limit**	**Actual 2021**	**Actual 2020**
Open currency position	<20%	3.5%	3.3%
Debt Service Ratio	>100%	209.1%	435.3%
Capital Adequacy 1	>9%	13.5%	10.5%
Capital Adequacy 2	>12%	19.2%	17%
Financial leverage ratio	<91%	80.8%	88%
Related parties exposure	<20%	3.6%	5.2%

DEFINITION OF RATIOS

- **NIM** - Net interest margin is equal to net leasing income, excluding direct leasing costs divided by the average monthly gross investment in finance lease of the same period.
- **Net leasing income** - For the purposes of calculating financial ratios net leasing income also includes income from interest accrued on deposits.
- **ROE** - Return on average equity equals the company's net loss /income divided by the monthly average of total shareholders 'equity, of the same period.
- **ROE before expected credit loss allowances** - ROE before expected credit loss allowances equals the company's net loss / income excluding all credit loss allowance, divided by the monthly average of total shareholder's equity, of the same period.
- **ROA** - Return on average assets is equal to the company's net loss/ income divided by the monthly average of total assets for the same period
- **COR** - Cost of risk is equals credit loss allowance for the net investment in finance lease plus credit loss allowance for other financial asset, divided by the average monthly gross investment in finance lease of the same period.
- **CIR** - Cost-to-income ratio is the administrative expenses plus direct leasing costs divided by the net lease income and other operating income for the same period
- **NPL**- Leases with overdue payments over 90 days plus unhealthy restructured leases overdue for less than 90 days divided by the investment in finance lease.
- **Tier 1** - Capital Adequacy Ratio 1 is the ratio of shareholders' equity to total assets, except for cash and cash equivalents and due from banks
- **Tier 2** - Capital Adequacy Ratio 2 is the ratio of total shareholders' equity and subordinated loans to total assets, except for cash and cash equivalents and due from banks.

DEFINITION OF BOND COVENANT

- **Open currency position** - OCP ratio to shareholder's equity and subordinated loans
- **DSCR** – Debt service coverage ratio is equal cash and cash equivalents, due from banks , 10% of net investment in finance lease with a maturity of up to 6 months and the ratio of approved financial resources divided by the company's loan liabilities with a maturity of up to 6 months
- **Capital adequacy 1** – Ratio of shareholders' equity to the total assets of the Company excluding cash and cash equivalents.
- **Capital adequacy 2** - Ratio of share capital and company subordinated debt, 50% of foreign currency net investment in finance lease plus total assets excluding cash and cash equivalents.
- **Financial leverage ratio** - Ratio of loans from banks as well as debt securities and subordinated loans to total assets.
- **Related party exposure** - Exposure of related party divided by shareholders' equity and subordinated debt.

JOINT STOCK COMPANY

TBC LEASING

Financial Statements and

Independent Auditor's Report

31 December 2021

Independent Auditor's Report

To the Shareholder and Management of JSC TBC Leasing

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of JSC TBC Leasing (the "Company") as at 31 December 2021, and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

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

Our audit approach

Overview

Materiality	• Overall Company materiality: approximately GEL 1.5 million, which represents 2.5% of revenue (Income on investment in leases and income from operating leasing)
Key audit matters	• Expected credit loss allowance of net investment in finance lease

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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality	Approximately GEL 1.5 million
How we determined it	2.5% of revenue (Income on investment in leases and income from operating leasing)
Rationale for the materiality benchmark applied	We chose Revenue as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark. We chose 2.5% which is consistent with quantitative materiality thresholds used for companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance on Net investment in finance lease ('NIFL')	We assessed whether the IFRS 9 ECL model methodologies developed by management are appropriate, by engaging our credit risk modelling specialists and by applying our knowledge of the industry

We focused on this area as the management estimates regarding the expected credit loss ('ECL') allowance are complex and require a significant degree of judgement.

Under IFRS 9 management is required to determine the credit loss allowance expected to occur over either a 12 month period or the remaining life of an asset, depending on the categorisation of the individual asset. This categorisation is determined by assessing whether there has been a significant increase in credit risk ('SICR') or default of the borrower since lease contract origination.

It is also necessary to consider the impact of different future macroeconomic conditions in the determination of ECLs. There is an increased level of uncertainty in the macroeconomic forecasts due to the ongoing impact of COVID-19 on the economy.

Management has designed and implemented an expected credit loss provisioning model to achieve compliance with the requirements of IFRS 9. Among others, management has applied judgement to the model in situations where past experience was not considered to be reflective of future outcomes due to limited or insufficient data.

We consider the appropriateness of the model methodologies and the following judgements used in the determination of the modelled ECL allowance to be significant:

- Critical assumptions applied in the determination of loss given default ('LGD') and probability of default ('PD');
- Assessment of the key assumptions related to forward-looking information ('FLI') including the appropriateness of scenario weightings and macro economic variables.

Refer to pages 102 to 113 (Significant Accounting Policies), page 114 (Critical Accounting Estimates and Judgement In Applying Accounting Policies), and pages 121 to 125 (note 11: Net investment in finance lease).

and the specifics of the business. This included an evaluation of the criteria set by management for determining whether there had been a SICR or default, and the models and approach applied in determination of ECL parameters.

We critically assessed appropriateness of areas of major judgement and key assumptions involved in estimation of LGDs, PDs, FLI and ECL.

We independently verified the accuracy of the calculation of ECL and assessed whether the ECL calculations were consistent with the approved model methodologies with the use of our credit risk modelling specialists.

We critically evaluated key aspects of model monitoring and validation performed by management relating to model performance and stability and critically assessed the monitoring results. The test results of statistical models were interpreted in the context of relevant circumstances and explanations were obtained for deviations from the expectation.

We challenged management in respect of the appropriateness of the macroeconomic models as well as weightings applied to each macroeconomic scenario.

We also considered whether PMAs were required to address relevant risks that were not captured in the modelled provision.

Other information

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

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

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

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

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

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the information given in the Management Report complies with the requirements of paragraph 6 and paragraph 7 (c), (g) of article 7 of the Law of Georgia on Accounting, Reporting and Auditing.
- the information given in the Management Report includes the information required by paragraph 7 (a), (b), (d) – (f) of article 7 of the Law of Georgia on Accounting, Reporting and Auditing.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Levan Kankava.

PricewaterhouseCoopers Georgia LLC

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

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

31 May 2022

Tbilisi, Georgia

STATEMENT OF FINANCIAL POSITION

In thousands of Georgian Lari	Note	31 December 2021	31 December 2020
ASSETS			
Cash and cash equivalents	7	16,765	69,974
Due from banks	8	29,016	21,383
Prepayments	9	2,732	3,089
Tax assets, net		6,825	2,795
Advances towards leasing contracts	10	28,922	10,281
Net investment in finance lease	11	246,443	270,834
Property and equipment	12	4,194	6,670
Intangible assets	13	2,510	2,381
Investment property	14	2,385	2,359
Assets repossessed from terminated leases	15	9,924	7,583
Derivative financial Instruments	31	56	1,791
Other financial assets	16	21,089	7,166
Other assets		123	165
TOTAL ASSETS		**370,984**	**406,471**
LIABILITIES			
Loans from banks and financial institutions	17	207,635	264,246
Advances received from customers	18	16,918	8,623
Debt securities in issue	19	58,342	58,114
Subordinated loans	20	33,691	35,412
Other liabilities	21	6,501	4,583
TOTAL LIABILITIES		**323,087**	**370,978**
EQUITY			
Share capital	22	3,659	3,659
Additional paid-in capital	22	7,550	7,550
Retained earnings		36,656	24,516
Cash flow hedge reserve	28	32	(232)
TOTAL EQUITY		**47,897**	**35,493**
TOTAL LIABILITIES AND EQUITY		**370,984**	**406,471**

Chair of the Supervisory Board George Tkhelidze	Chief Executive Officer Gaioz Gogua	Chief Financial Officer Nugzar Loladze

31 May 2022

The notes set out on pages 102 to 157 form an integral part of these financial statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands of Georgian Lari	Note	2021	2020
Income on investment in leases		57,095	45,578
Income from operating leasing		2,444	3,218
Interest expense		(24,786)	(25,466)
Direct leasing costs	25	(9,044)	(8,220)
Net lease income		**25,709**	**15,110**
Credit loss allowance for net investment in finance lease	11	3,084	(8,117)
Net lease income after expected credit loss		**28,793**	**6,993**
Credit loss allowance for other financial assets	16	(8,514)	(2,768)
Gain from revaluation of investment property	14	26	149
(Loss) / Gain from sale/release of repossessed assets	15	(82)	702
Gain on initial recognition of repossessed assets		99	48
Write-down of repossessed assets to net realizable value	15	(264)	(187)
(Losses net of gain) / Gains net of losses from derivative financial instruments	31	(2,769)	6,077
Foreign exchange translation gains less losses / (losses less gains)		1,915	(8,205)
Administrative and other operating expenses	26	(10,174)	(9,277)
Other income	23	3,110	3,310
PROFIT (LOSS) FOR THE YEAR		**12,140**	**(3,158)**
Other comprehensive income / (loss):			
Items that may be reclassified subsequently to profit or loss:			
Gains / (Loss) on cash flow hedges	28	264	(394)
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR		**12,404**	**(3,552)**

The notes set out on pages 102 to 157 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

In thousands of Georgian Lari	Share capital	Additional Paid in Capital	Cash flow hedge reserve	Retained earnings	Total equity
Balance at 1 January 2020	**3,659**	**7,550**	**162**	**27,674**	**39,045**
Loss for the year	-	-	-	(3,158)	**(3,158)**
Other comprehensive loss	-	-	(394)	-	**(394)**
Balance at 31 December 2020	**3,659**	**7,550**	**(232)**	**24,516**	**35,493**
Gain for the year	-	-	-	12,140	**12,140**
Other comprehensive loss	-	-	264	-	**264**
Balance at 31 December 2021	**3,659**	**7,550**	**32**	**36,656**	**47,897**

The notes set out on pages 102 to 157 form an integral part of these financial statements

STATEMENT OF CASH FLOWS

In thousands of Georgian Lari	Note	2021	2020
Cash flows from operating activities			
Cash receipts from lessees		187,563	176,007
cash receipts from lessees before commencement		11,979	10,086
Cash receipts from sale of repossessed assets		7,818	5,708
Cash receipts from terminated lease contracts		1,621	2,732
Interest received from current account		1,983	2,087
Interest received from deposit		652	344
Cash inflow from derivative financial instruments		-	3,574
Cash paid for purchase of assets for financial leasing purposes		(156,963)	(132,511)
Cash paid for direct leasing costs		(8,076)	(8,946)
Cash paid to employees		(4,040)	(3,769)
Cash paid for administrative and other operating expenses		(2,827)	(2,344)
Cash outflow from derivative financial instruments		(1,162)	-
Cash paid for purchase of assets for operating leasing purposes		-	(119)
Cash from operations		**38,548**	**52,849**
Interest paid on loans from banks and financial institutions	27	(14,203)	(15,657)
Interest paid on debt securities issued	27	(7,032)	(5,261)
Interest paid on subordinated loans	27	(3,189)	(3,042)
Taxes paid		(14,517)	(6,827)
Net cash (used in) / from operating activities		**(393)**	**22,062**
Cash flows from investing activities			
Purchase of property and equipment	12	(164)	(200)
Purchase of intangible assets	13	(462)	(674)
Net cash used in investing activities		**(626)**	**(874)**
Cash flows from financing activities			
Loans from banks and financial institutions received	27	63,120	192,057
Debt securities issued	27	-	57,796
Cash received from deposits (Due From Banks)		40,538	10,000
Loans from banks and financial institutions repaid	27	(102,103)	(203,291)
Cash paid for deposits (Due From Banks)		(51,341)	(31,439)
Repayment of lease liabilities		(467)	(563)
Net cash from financing activities		**(50,253)**	**24,560**
Effect of exchange rate changes on cash and cash equivalents		(1,937)	4,869
Net (decrease) / increase in cash and cash equivalents		**(53,209)**	**50,617**
Cash and cash equivalents at the beginning of the year	7	69,974	19,357
Cash and cash equivalents at the end of the year	**7**	**16,765**	**69,974**

The notes set out on pages 102 to 157 form an integral part of these financial statements

1. INTRODUCTION

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

Principal activity. The Company's principal business activity is providing finance and operating leases to companies and individuals within Georgia. The company is the largest provider of a wide spectre of leasing products to more than 2,200 large, corporate, MSME and individual clients all across Georgia. The company's products include financial and operating leases in agro, medical, construction, service, manufacturing and retail business sectors. The Company offers its products through various type of sales channels including parent bank, official representative dealerships, vendors and direct sales channels. The Company leases various types of assets, from industrial equipment and equipment used in information technology to vehicles, which are purchased from suppliers in Georgia and abroad. The company is a partner of governmental agencies like Enterprise Georgia and Agricultural Projects' Management Agency (APMA), which provide subsidies to companies to assist the growth of their businesses. The company employs over 130 people on permanent bases and operates head office and three retail branches.

The shareholder of the Company was JSC TBC Bank (the "Parent") with ownership interest 100 % as at 31 December 2021 and 2020. As of 31 December 2021, 2020 TBC Leasing had no ultimate controlling party.

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

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

2. OPERATING ENVIRONMENT OF THE COMPANY

The company's business is based in Georgia. Its economy is particularly sensitive mostly to tourism. The legal, tax, and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations.

The Georgian economy continues to be negatively impacted by ongoing political tension in the region. Since February 2022 ongoing political tension in the region escalated as a result of Russian invasion in Ukraine. This have negatively impacted and increased volatility.

Uncertainty is still high, the restrictions imposed on Russia and the possible consequences of the war are still unknown, but according to the based scenario, the Georgian economy will grow by 5.5%[1] in 2022.

The information of even after reporting period is disclosed in Note 36.

For the purpose of measurement of expected credit loss ("ECL"), the Company uses supportable forward-looking information, including forecasts of macroeconomic variables. Note 29 provides more information on how the Company incorporated forward-looking information in the ECL models.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments and assets received through terminated lease contracts based on fair value and in accordance with Law of Georgia on Accounting, Reporting and Auditing. The principal accounting policies applied in the preparation of these financial statements are set out below.

[1] TBC Capital Macro Insight

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 32.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

recognition, an ECL allowance is recognised for financial assets measured at AC (Amortised Cost) and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

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

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

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

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Company in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 4 for critical judgements applied by the Company in determining the business models for its financial assets.

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

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Company in performing the SPPI test for its financial assets.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

of future conditions.

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

The Company applies a three-stage model for impairment, based on changes in credit quality since initial recognition.

- Stage 1: A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL").
- Stage 2: If the Company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 29 for a description of how the Company determines when a SICR has occurred;
- Stage 3: If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Company's definition of credit impaired assets and definition of default is explained in Note 29.

For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 29 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Company incorporates forward-looking information in the ECL models.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

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

The hedging relationship meets all hedge effectiveness requirements if:

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

The Company separating the forward element and the spot element of a forward contract and designating as the hedging instrument only the change in the value of the spot element of a forward contract and not the forward element.

Also A proportion of the entire hedging instrument, such as 50 per cent of the nominal amount, may be designated as the hedging instrument in a hedging relationship. However, a hedging instrument may not be designated for a part of its change in fair value that results from only a portion of the time period during which the hedging instrument remains outstanding.

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

The amount recognised in OCI should be the lower of:

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

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised in other comprehensive income. Any remaining gain or loss on the hedging is hedge ineffectiveness that shall be recognised in profit or loss.The change in fair values of hedging instruments designated in hedge relationships are disclosed in Note 29 .

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

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

and balance with banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Due from Bank. Due from other banks include any placements with banks with original maturities of more than three months and restricted cash that are not available for use due to the restrictions placed on these balances.

Interest income on bank deposits. Interest income on bank deposits is recorded on an accrual basis using a contractual interest rate and includes income from bank deposits and current account placed in banks. Interest income on bank deposit is recognise as other income in the statement of profit and loss.

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

Commencement of the lease term. The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.

Net investment in finance lease/ Finance income recognition. Where the Company is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as net investments in finance lease. Net investment in the lease is calculated as the aggregate of the minimum lease payments, representing the amounts guaranteed by the lessee and any unguaranteed residual value (together gross investment in the lease), discounted at the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the present value of the gross investment in the lease to be equal to the fair value of the leased asset.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

Advances towards leasing contracts. Advances towards leasing contracts are advance payments for purchase of leasing assets, which are transferred into net investment in finance lease at the commencement date of the leasing contract.

Receivables from terminated leases. The Company recognises outstanding exposure as receivables from terminated contracts at the moment of lease contract termination. Receivables are accounted for at amortised cost less ECL.

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

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

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

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

Assets Repossessed from Terminated Leases. Assets returned as a result of termination of finance and operating lease contracts are considered as assets, which can be sold or leased again. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term. The Company determines the fair value of these assets at the date of termination of the respective lease contract based on a valuation performed by an internal appraiser. The Company determines net realisable value at reporting date as the estimated selling price less all estimated costs necessary to make the sale. The fair value and selling price is determined by the internal and external appraisers using market comparison, cost or revenue approaches .

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

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

Accounting for vehicles leased out under operating lease at the time of termination is described in Note 3. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of property and equipment is calculated, using declining balance method to allocate their cost to their residual values over their estimated useful life,

except for vehicles leased out under operating leases, which uses straight-line method. Estimated useful lives are presented in table below:

	Years
Computers and office equipment	5
Vehicles and vehicles leased out under operating lease	5
Furniture and fixtures	5
Leasehold improvements	6.5
Right of use assets	3

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

	Years
Leasing ERP software	10
Other intangible assets	5-7

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as an Additional paid-in capital.

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

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

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

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

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

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

Income tax arising from distribution of dividends is accounted for as an income tax expense in the period in which

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

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

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

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

Value-added taxes related to down payments of leases are accounted as the advances received from customers, respective VAT amounts are transferred to VAT payable at the leasing commencement date.

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

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

At 31 December 2021 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 3.0976 (2020: USD 1 = GEL 3.2766); EUR 1 = GEL 3.504 (2020: EUR 1 = GEL 4.0233).

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

4.CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

ECL measurement. Measurement of ECLs is a significant estimate that involves forecasting future economic conditions, longer the term of forecasts more management judgment is applied and those judgements may be the source of uncertainty. Details of ECL measurement methodology are disclosed in Note 29. The following components have a major impact on credit loss allowance: definition of default, definition of significant increase in credit risk (SICR), probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as well as macro-economic scenarios. The Company regularly reviews and validates these scenarios to reduce any differences between Probability of default (PD) and Loss given default (LGD) parameters, which are one of the key drivers of expected credit losses. The effects of respective sensitivity are described below:

In thousands of Georgian Lari	**2021**	**2020**
10% increase (decrease) in PD estimates	Increase (decrease) credit loss allowance on leases by GEL 335 thousand (GEL 345 thousand)	Increase (decrease) credit loss allowance on leases by GEL 469 thousand (GEL 469 thousand
10% increase (decrease) in LGD estimates	Increase (decrease) credit loss allowance on leases by GEL 661 thousand (GEL 651 thousand)	Increase (decrease) credit loss allowance on leases by GEL 937 thousand (GEL 903 thousand)
10% deterioration (improvement) in FLI estimates	Increase (decrease) credit loss allowance on leases by GEL 318 thousand (GEL 326 thousand)	Increase (decrease) credit loss allowance on leases by GEL 423 thousand (GEL 428 thousand)

The Company incorporates forward-looking information with three macro-economic scenarios to calculate unbiased and probability weighted ECL. They represent the Baseline scenario (most likely outcome) and two less likely scenarios, referred as the Upside (better than Baseline) and Downside (worse than Baseline).

To derive the baseline macro-economic scenario, Company takes into account forecasts from various external sources – the National Bank of Georgia, Ministry of Finance, International Monetary Fund ("IMF") as well as other International Financial Institutions ("IFI"'s) – in order to ensure the to the consensus market expectations. Upside and downside scenarios are defined based on the framework developed by the Group's macroeconomic unit. The Company uses statistical models and historical relationship between the various macroeconomic factors and default observations to derive forward-looking adjustments. In case these models do not provide reasonable results either from statistical or business perspective, the Group may apply expert judgment or use alternative approach.

As at 31 December 2021, The Company uses same approaches as in 31 December 2020. The forward looking information is incorporated in both individual and collective assessment of expected credit losses.

The scenario probabilities were adjusted at YE 2020 due to the prolongation and severity of the COVID-19 pandemic impact, and stood at 60%, 10% and 30% for baseline, upside and downside respectively. As at 31 December 2021 though, they are back at 50%, 25% and 25% as they were in all previous years since IFRS 9 came into force.

5.ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following amendments became effective from 1 January 2021:

COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and resulting in a reduction in lease payments due on or before 30 June 2021 On 31 March 2021, in light of the on-going pandemic, the IASB published additional amendment to extend the date for the concessions from 30 June 2021 to 30 June. The Company did not have lease modification.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

Effect of IBOR reform. Reform and replacement of various inter-bank offered rates ('IBORs') has become a priority for regulators. Many IBOR rates stopped being published on 31 December 2021, while certain USD LIBOR rates would stop being published by 30 June 2023.

As of 31 December 2021, the Company has GEL 692 thousand (with maturity date 01 February 2022) loans from banks and financial institutions where Libor is used as a floating rate. The company continues to engage with market participants and will intends to replace USD Libor by SOFR for new transactions.

6. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2022 or later, and which the Group has not early adopted.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately The Company does not expect to apply the standard.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- Effective date: The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- Expected recovery of insurance acquisition cash flows: An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- Contractual service margin attributable to investment services: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- Reinsurance contracts held – recovery of losses: When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- Other amendments: Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

6. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

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

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

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Company is currently assessing the impact of the amendments on its financial statements.

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

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

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001

6. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

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

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

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

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

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Company is currently assessing the impact of the amendments on its financial statements.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment

6. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Company is currently assessing the impact of the amendments on its financial statements.

Transition option to insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to the transition requirements in IFRS 17 provides insurers with an option aimed at improving the usefulness of information to investors on initial application of IFRS 17. The amendment relates to insurers' transition to IFRS 17 only and does not affect any other requirements in IFRS 17. The transition requirements in IFRS 17 and IFRS 9 apply at different dates and will result in the following one-time classification differences in the comparative information presented on initial application of IFRS 17: accounting mismatches between insurance contract liabilities measured at current value and any related financial assets measured at amortised cost; and if an entity chooses to restate comparative information for IFRS 9, classification differences between financial assets derecognised in the comparative period (to which IFRS 9 will not apply) and other financial assets (to which IFRS 9 will apply). The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets. When initially applying IFRS 17, entities would, for the purpose of presenting comparative information, be permitted to apply a classification overlay to a financial asset for which the entity does not restate IFRS 9 comparative information. The transition option would be available, on an instrument-by-instrument basis; allow an entity to present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but not require an entity to apply the impairment requirements of IFRS 9; and require an entity that applies the classification overlay to a financial asset to use reasonable and supportable information available at the transition date to determine how the entity expects that financial asset to be classified applying IFRS 9.

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021). In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022. The Company is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements.

7. CASH AND CASH EQUIVALENTS

In thousands of Georgian Lari	31 December 2021	31 December 2020
Current accounts with banks	16,765	69,974
Cash and cash equivalents	**16,765**	**69,974**

At 31 December 2021, cash and cash equivalents of GEL 9,736 thousand (2020: GEL 23,700 thousand) are held on the Company's current accounts with JSC TBC Bank.

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

In thousands of Georgian Lari	31 December 2021	31 December 2020
Current accounts with banks with "BB-" to "BB+" rating	10,301	24,099
Current accounts with banks with "B-" to "B+" rating	6,401	45,581
Current accounts with banks unrated	63	294
Cash and cash equivalents	**16,765**	**69,974**

7. CASH AND CASH EQUIVALENTS CONTINUED

As of 31 December 2021, GEL 2,500 thousand cash balances (2020: GEL 50,385 thousand) were pledged as collateral for loans obtained from banks and financial institutions.

The information on related party balances and transactions is disclosed in Note 35.

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

In thousands of Georgian Lari	**31 December 2021**	**31 December 2020**
Recognition of right of use assets against lease liabilities	587	259
Non-cash investing activities	**587**	**259**

In thousands of Georgian Lari	**31 December 2021**	**31 December 2020**
Initial recognition of lease liabilities	587	259
Non-cash financing activities	**587**	**259**

8. DUE FROM BANKS

In thousands of Georgian Lari	**31 December 2021**	**31 December 2020**
Initial recognition of lease liabilities	29,016	21,383
Non-cash financing activities	**29,016**	**21,383**

At 31 December 2021, due from bank included the placement of GEL 5,000 thousand (2020: GEL 16,383) in the accounts of JSC TBC Bank.

As of 31 December 2021, GEL 19,996 thousand Due from Banks were pledged as collateral for loans obtained from banks and financial institutions. As of 31 December 2020 balances of due from banks were not pledged as collateral.

Refer to Note 17 for the loans from bank and financial institutions. The information on related party balances and transactions is disclosed in Note 35.

9. PREPAYMENTS

In thousands of Georgian Lari	**31 December 2021**	**31 December 2020**
Prepaid insurance for leasing assets	2,604	3,000
Other prepayments	128	89
Total prepayments	**2,732**	**3,089**

10. ADVANCES TOWARDS LEASING CONTRACTS

Advances towards leasing contracts comprised GEL 28,922 thousand as at 31 December 2021 (2020: GEL 10,281 thousand). The advances towards leasing contracts are all current, give rise net investment in finance lease usually within one to three months period after the reporting date.

11. NET INVESTMENTS IN FINANCE LEASE

Net and gross investments in finance lease are as follows:

In thousands of Georgian Lari	31 December 2021	31 December 2020
Gross investment in finance lease	322,311	353,425
Unearned finance income	(68,559)	(72,104)
Investment in finance lease	**253,752**	**281,321**
Credit loss allowance	(7,309)	(10,487)
Total net investments in finance lease	**246,443**	**270,834**

The table below present the gross investments in finance lease according to maturity:

In thousands of Georgian Lari	Due in 1 year	Due between 1 and 2 year	Due between 2 and 3 year	Due between 3 and 4 year	Due between 4 and 5 year	Due in 5 year or more	Total
Gross investment in finance lease as at 2021	126,513	95,191	53,843	28,048	11,847	6,869	**322,311**
Unearned finance income	(32,106)	(19,805)	(9,778)	(4,332)	(1,460)	(1,078)	**(68,559)**
Credit loss allowance	(2,719)	(2,172)	(1,269)	(683)	(299)	(167)	**(7,309)**
Net investment in finance lease as at December 2021	**91,688**	**73,214**	**42,796**	**23,033**	**10,088**	**5,624**	**246,443**
Gross investment in finance lease as at 2020	133,093	102,671	64,964	31,307	13,922	7,468	**353,425**
Unearned finance income	(33,072)	(20,783)	(10,894)	(4,656)	(1,712)	(987)	**(72,104)**
Credit loss allowance	(3,729)	(3,053)	(2,016)	(994)	(455)	(240)	**(10,487)**
Net investment in finance lease as at December 2020	**96,292**	**78,835**	**52,054**	**25,657**	**11,755**	**6,241**	**270,834**

As pandemic evolved, the vulnerable client was granted to loan repayment grace periods back in 2020. Clients were given payment holidays on interest and principal amounts. During the year 2020 net modification loss of net investment in finance lease amounts to GEL 2,709 thousand, which is amortised in 2021, and net modification gain for the year 2021 amounts to GEL 1,518 thousand.

11. NET INVESTMENTS IN FINANCE LEASE CONTINUED

The Company has no contractual amount outstanding on net investment in finance lease, which was written off during the 2021 and 2020 reporting period and is still subject to enforcement activity.

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

	Credit loss allowance				Gross carrying amount			
In thousands of Georgian Lari	Stage 1 (12 - months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12 - months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 31 December 2020	**2,647**	**1,867**	**5,973**	**10,487**	**172,098**	**60,318**	**48,905**	**281,321**
Transfers:								
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1,652	(1,048)	(604)	**-**	47,208	(38,43)	(8,771)	**-**
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(168)	442	(274)	**-**	(27,926)	30,087	(2,161)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(103)	(100)	203	**-**	(10,016)	(1,965)	11,981	**-**
New originated or purchased	1,363	295	385	**2,043**	106,237	4,213	1,670	**112,120**
Derecognised during the period	(1,005)	(449)	(4,011)	**(5,465)**	(58,685)	(11,08)	(21,236)	**(91,008)**
Partial repayment	-	-	-	**-**	(36,431)	(4,011)	(4,906)	**(45,348)**
Foreign currency effect	-	-	-	**-**	(3,955)	(1,777)	(1,398)	**(7,130)**
Changes to ECL measure-ment model assumptions	(1,978)	290	2,026	**338**	-	-	-	**-**
Write-off	-	-	(94)	**(94)**	-	-	-	**-**
Other movements	-	-	-	**-**	(1,085)	1,372	3,510	**3,797**
At 31 December 2021	**2,408**	**1,297**	**3,604**	**7,309**	**187,445**	**38,713**	**27,594**	**253,752**

11. NET INVESTMENTS IN FINANCE LEASE CONTINUED

	Credit loss allowance				Gross carrying amount			
In thousands of Georgian Lari	Stage 1 (12 - months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12 - months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 31 December 2019	**1,529**	**99**	**1,103**	**2,731**	**206,072**	**23,766**	**29,924**	**259,762**
Transfers:								
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	14	(14)	-	**-**	5,564	(4,940)	(624)	**-**
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(117)	119	(2)	**-**	(42,092)	44,375	(2,283)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(467)	(23)	490	**-**	(26,114)	(1,636)	27,750	**-**
New originated or purchased	1,212	528	807	**2,547**	86,812	18,419	10,031	**115,262**
Derecognised during the period	(329)	(49)	(485)	**(863)**	(41,883)	(13,544)	(11,139)	**(66,566)**
Partial repayment	-	-	-	**-**	(24,902)	(10,936)	(9,592)	**(45,430)**
Foreign currency effect	-	-	-	**-**	6,503	3,424	3,539	**13,466**
Changes to ECL measure-ment model assumptions	805	1,207	4,060	**6,072**	-	-	-	**-**
Other movements	-	-	-	**-**	2,138	1,390	1,299	**4,827**
At 31 December 2020	**2,647**	**1,867**	**5,973**	**10,487**	**172,098**	**60,318**	**48,905**	**281,321**

The Company normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Company holds title to the leased assets during the lease term. The title to the asset under finance lease contract is transferred to the lessees at the end of the contractual term subject to full payment of lease obligations. Generally, the lease terms are up to five years.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are:

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

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

11. NET INVESTMENTS IN FINANCE LEASE CONTINUED

The effect of collateral at 31 December 2021:

	Over-Collateralised assets		Under-Collateralised assets	
In thousands of Georgian Lari	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in finance lease - gross	213,305	354,600	40,447	31,842

The effect of collateral at 31 December 2020:

	Over-Collateralised assets		Under-Collateralised assets	
In thousands of Georgian Lari	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in finance lease - gross	217,955	357,794	63,366	51,182

As at 31 December 2021, credit quality of net investment in finance lease is analysed below:

In thousands of Georgian Lari	**Stage 1** (12-months ECL)	**Stage 2** (lifetime ECL for SICR)	**Stage 3** (lifetime ECL for credit impaired)	Total
Investments in finance lease risk category				
- Very Low	157,823			**157,823**
- Low	29,622	8,435		**38,057**
- Moderate		15,738		**15,738**
- High		14,540		**14,540**
- Default			27,594	**27,594**
Gross carrying amount	**187,445**	**38,713**	**27,594**	**253,752**
Credit loss allowance	(2,408)	(1,297)	(3,604)	**(7,309)**
Carrying amount	**185,037**	**37,416**	**23,990**	**246,443**

11. NET INVESTMENTS IN FINANCE LEASE CONTINUED

As at 31 December 2020, credit quality of net investment in finance lease is analysed below:

In thousands of Georgian Lari	**Stage 1** (12-months ECL)	**Stage 2** (lifetime ECL for SICR)	**Stage 3** (lifetime ECL for credit impaired)	Total
Investments in finance lease risk category				
- Very Low	153,590			**153,590**
- Low	18,508	55,264		**73,772**
- Moderate		4,733		**4,733**
- High		321		**321**
- Default			48,905	**48,905**
Gross carrying amount	**172,098**	**60,318**	**48,905**	**281,321**
Credit loss allowance	(2,647)	(1,867)	(5,973)	**(10,487)**
Carrying amount	**169,451**	**58,451**	**42,932**	**270,834**

12. PROPERTY AND EQUIPMENT

In thousands of Georgian Lari	Land	Prem-ises	Computer and office equipment	Furni-ture and Fixtures	Vehicles	Vehi-cles for Fleet*	Leasehold improve-ment	Right of use Assets	Total
Cost at 1 January 2020	23	7	402	403	408	8,360	173	1,138	**10,914**
Accumulated depreciation	-	(1)	(151)	(165)	(123)	(1,762)	(55)	(404)	**(2,661)**
Carrying amount at 1 January 2020	**23**	**6**	**251**	**238**	**285**	**6,598**	**118**	**734**	**8,253**
Additions	-	-	19	56	-	119	95	259	**548**
Disposals	-	-	(5)	(2)	(41)	(83)	(56)	(407)	**(594)**
Transfer to financial lease and repossessed assets	-	-	-	-	-	(349)	-	-	**(349)**
Depreciation charge	-	(1)	(55)	(54)	(57)	(1,071)	(24)	(465)	**(1,727)**
Elimination of accumulated depreciation on disposals and transfers	-	-	1	1	28	156	35	318	**539**
Carrying amount at 31 December 2020	**23**	**5**	**211**	**239**	**215**	**5,370**	**168**	**439**	**6,670**
Cost at 31 December 2020	23	7	416	457	367	8,047	212	990	**10,519**
Accumulated depreciation	-	(2)	(205)	(218)	(152)	(2,677)	(44)	(551)	**(3,849)**
Carrying amount at 31 December 2020	**23**	**5**	**211**	**239**	**215**	**5,370**	**168**	**439**	**6,670**
Additions	-	-	76	20	43	-	7	587	**733**
Disposals	-	-	(10)	-	(34)	-	(48)	(80)	**(172)**
Transfer to financial lease and repossessed assets	-	-	-	-	-	(3,229)	-	-	**(3,229)**
Depreciation charge	-	(1)	(55)	(47)	(45)	(829)	(29)	(261)	**(1,267)**
Elimination of accumulated depreciation on disposals and transfers	-	-	23	-	15	1,393	28	-	**1,459**
Carrying amount at 31 December 2021	**23**	**4**	**245**	**212**	**194**	**2,705**	**126**	**685**	**4,194**
Cost at 31 December 2021	23	7	482	477	376	4,818	171	1,497	**7,851**
Accumulated depreciation	-	(3)	(237)	(265)	(182)	(2,113)	(45)	(812)	**(3,657)**
Carrying amount at 31 December 2021	**23**	**4**	**245**	**212**	**194**	**2,705**	**126**	**685**	**4,194**

* Vehicles for operating leasing

12. PROPERTY AND EQUIPMENT CONTINUED

The right of use assets includes offices of the Company.

Where the Company is the lessor, the future minimum lease payments receivable under operating leases of equipment are as follows:

In thousands of Georgian Lari	2021	2020
Due in 1 year	1,549	2,669
Due between 1 and 2 year	587	1,939
Due between 2 and 3 year	19	7,13
Due between 3 and 4 year	4	20
Due between 4 and 5 year	-	4
Due in 5 year or more	-	-
Total undiscounted future operating lease payments receivable	**2,159**	**5,345**

13. INTANGIBLE ASSET

In thousands of Georgian Lari	Leasing ERP Software	Other intangible assets	Total
Carrying amount at 1 January 2020	**1,701**	**24**	**1,725**
Additions	675	26	**701**
Disposals	-	(32)	**(32)**
Amortization charge	(8)	(5)	**(13)**
Elimination of accumulated amortisation on disposals	(29)	29	**-**
Carrying amount at 31 December 2020	**2,339**	**42**	**2,381**
Cost at 31 December 2020	2,396	51	**2,447**
Accumulated amortisation	(57)	(9)	**(66)**
Carrying amount at 31 December 2020	**2,339**	**42**	**2,381**
Additions	452	11	**463**
Disposals	(100)	(41)	**(141)**
Amortization charge	(247)	(25)	**(272)**
Elimination of accumulated amortisation on disposals	58	21	**79**
Carrying amount at 31 December 2021	**2,502**	**8**	**2,510**
Cost at 31 December 2021	2,748	21	**2,769**
Accumulated amortisation	(246)	(13)	**(259)**
Carrying amount at 31 December 2021	**2,502**	**8**	**2,510**

In January 2021, Company completed the initialization process for several modules, accordingly amortization charge includes GEL 243 thousand amortization charge related to ERP software. (As at 31 December 2020 leasing ERP software was in testing phase and respectively no amortization expense was charged).

14. INVESTMENT PROPERTY

As of 31 December 2018, investment property comprised of a land plot (10,839 sq. m) with buildings (3,047 sq. m) acquired on public auction by the Company at 25 December 2012. The cost of acquisition was GEL 890,513. Initially the property was recognised as other asset with the purpose to use in settlement of outstanding balance of net investment in finance lease from the lessee (JSC Gldanula). However, the lessee refused to cover existing liability and applied to court in order to cancel the auction results. In 2016 court decided in favour of the Company, therefore the Company's Management reassessed the purpose of holding the property and concluded to keep it in ownership for capital appreciation purposes, therefore the property was reclassified to investment property. During the year 2019 water drain works has been performed and the associated costs GEL 19 thousand has been capitalized. As of 31 December 2020 and 2021, the Company had not started any other development or construction work over this property and neither determined its future use. As such the acquired property is regarded as held for capital appreciation.

As at 31 December 2021 the fair value of investment property was estimated at GEL 2,385 thousand (2020: GEL 2,359 thousand) as determined based on the valuation performed by Baker Tilly Georgia LLC, an accredited independent appraiser in Georgia, in accordance with International Valuation Standards and the Code of Conduct issued by International Valuation Standards Committee. The appraiser used market approach based on the highest and best use analysis of the property. The gain from revaluation of investment property measured at fair value GEL 26 thousand (2020: GEL 149 thousand) for year 2021 was recognised in profit and loss.

Investment property as at 31 December 2021:

In thousands of Georgian Lari	**Transferred from re-possessed assets at cost**	**Fair value as of 31 December 2021**	**Valuation technique**	**Other key infor-ma-tion**	**Un-ob-serv-able inputs**	**Range of unobserv-able inputs (weighted average)**	**Sensitivity of the input to fair value**
Investment property	891	2,385	Sales com-parison approach	Land and building	Price per square meter	160 - 180	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value

Sensitivity analysis. 10% increase or decrease in the price per square metre would result in increase or decrease of GEL 239 thousand in fair value of the investment property.

Investment property as at 31 December 2020:

In thousands of Georgian Lari	**Transferred from re-possessed assets at cost**	**Fair value as of 31 December 2021**	**Valuation technique**	**Other key infor-ma-tion**	**Un-ob-serv-able inputs**	**Range of unobserv-able inputs (weighted average)**	**Sensitivity of the input to fair value**
Investment property	891	2,359	Sales com-parison approach	Land and building	Price per square meter	160 - 180	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value

15. ASSETS REPOSSESSED FROM TERMINATED LEASES

In thousands of Georgian Lari	**31 December 2021**	**31 December 2020**
Carrying value at the beginning of the year	**7,583**	**6,129**
Assets repossessed from terminated leases during the year at fair value	15,121	10,442
Disposal through sales	(5,697)	(3,129)
Disposal through transfer to new leases	(6,515)	(5,192)
Write down to net realizable value	(264)	(187)
Other movement	(304)	(480)
Carrying amount at the end of the year	**9,924**	**7,583**

(Loss)/Gain from sale or release of repossessed assets comprised GEL (82) thousand and GEL 702 thousand for 2021 and 2020 years respectively.

16. OTHER FINANCIAL ASSETS

In thousands of Georgian Lari	**31 December 2021**	**31 December 2020**
Gross receivables from terminated lease	42,723	19,121
Less: Credit loss allowance for receivables from terminated leases	(24,380)	(14,616)
Total carrying amount of receivable from terminated leases at AC	**18,343**	**4,505**
Gross other receivables	3,075	3,576
Less: Credit loss allowance for other receivables	(1,889)	(2,346)
Total carrying amount of other receivables at AC	**1,186**	**1,230**
Gross loans issued to lessees	3,548	4,412
Less: Credit loss allowance for loans issued to lessees	(1,988)	(2,981)
Total carrying amount of loans issued to lessees at AC	**1,560**	**1,431**
Total other financial assets	**21,089**	**7,166**

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

	Credit loss allowance				**Gross carrying amount**			
In thousands of Georgian Lari	Stage 1 (12 - months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12 - months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 31 December 2020	**-**	**-**	**19,943**	**19,943**	**-**	**-**	**27,109**	**27,109**
Transferred from net investment in leases	-	-	9,492	**9,492**	-	-	21,360	**21,360**
Derecognised during the period	-	-	(2,095)	**(2,095)**	-	-	(1,227)	**(1,227)**
Changes due to change in credit quality	-	-	1,117	**1,117**	-	-	2,104	**2,104**
Other movements	-	-	(200)	**(200)**	-	-	-	**-**
At 31 December 2021	**-**	**-**	**28,257**	**28,257**	**-**	**-**	**49,346**	**49,346**

16. OTHER FINANCIAL ASSETS CONTINUED

	Credit loss allowance				Gross carrying amount			
In thousands of Georgian Lari	Stage 1 (12 - months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12 - months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 31 December 2019	**-**	**-**	**17,175**	**17,175**	**-**	**-**	**27,286**	**27,286**
Transferred from net investment in leases	-	-	2,492	**2,492**	-	-	6,692	**6,692**
Derecognised during the period	-	-	(4,332)	**(4,332)**	-	-	(6,139)	**(6,139)**
Changes due to change in credit quality	-	-	4,608	**4,608**	-	-	-	**-**
Other movements	-	-	-	**-**	-	-	(730)	**(730)**
At 31 December 2020	**-**	**-**	**19,943**	**19,943**	**-**	**-**	**27,109**	**27,109**

17. LOANS FROM BANKS AND FINANCIAL INSTITUTIONS

The table below represents loans from banks and financial institutions:

In thousands of Georgian Lari	31 December 2021	31 December 2020
Loans from foreign banks and financial institutions	**195,664**	**217,163**
Georgian Laris	53,391	57,059
US Dollars	66,851	56,354
Euros	75,422	103,750
Loans from local banks and financial institutions	**11,971**	**47,083**
Georgian Laris	11,279	44,897
US Dollars	692	2,185
Euros	-	1
Total loans from banks and financial institutions	**207,635**	**264,246**

Loans from banks and financial institutions are secured by certain cash and cash equivalents, certain leases receivable and advances towards leasing contracts as detailed in Note 7, 11 and 10. The amount of gross investment in leases pledged as collateral comprised 152,920 thousand GEL (2020: GEL 191,893 thousand), the amount of advances towards leasing contracts pledged as collateral comprised 32,250 thousand GEL (2020: GEL 10,930 thousand), as well as the amount of cash and cash equivalents and due from banks pledged as collateral comprised GEL 2,500 thousand and GEL 19,996 thousand respectively (2020: GEL 50,385 thousand and GEL 0 thousand).

The Company is obliged to comply with certain financial covenants stipulated by the loan agreements. All covenants were in compliance as of December 2021 and 2020. As at 31 December 2021 accrued interest payable included in loans from banks and financial institutions amounted to GEL 1,863 thousand (2020: GEL 2,861 thousand).

17. LOANS FROM BANKS AND FINANCIAL INSTITUTIONS CONTINUED

Refer to Note 32 for the estimated fair value of loans from banks and financial institutions. The information on related party balances and transactions is disclosed in Note 35.

18. ADVANCES RECEIVED FROM CUSTOMERS

Advances from customers that were outstanding at the year-end comprised GEL 16,918 thousand as at 31 December 2021 (2020: GEL 8,623 thousand). By defaults the Company requires customers to pay in advance at least 20% of total cost of the leased asset. These amounts are collected from the Company's customers in advance upon signing of the lease agreements and are used for financing part of lease asset value during its acquisition and maintained as buffer until the leased assets are transferred to the customer. Subsequent to physical transfer of the leased assets, the amounts received from customers as advances are credited against net investment in lease receivable from the same customer. GEL 13,953 thousand as at 31 December 2021 (2020: GEL 4,153 thousand) represents security deposit received from customers in advance, while the remaining part of balance is lease payments received in advance and advances received for sale of repossessed assets.

19. DEBT SECURITIES IN ISSUE

In thousands of Georgian Lari	Currency	Maturity date	31 December 2021	31 December 2020
Bonds issued on domestic market	GEL	20.03.2023	58,342	58,114
Total debt securities in issue			**58,342**	**58,114**

In March 2020, the company issued bonds with a face value of GEL 58,400 thousand.

31 December 2021, the debt securities in issue have a coupon rate of 13.39% (2020: 11.35%) and an effective interest rate of 12.50% based on their issue price, net of transaction costs.

As at 31 December 2021 accrued interest payable included in debt security in issue amounted to GEL 217 thousand. (2020: GEL 184 thousand)

Debt security in Issue are secured by certain leases receivable and advances towards leasing contracts as detailed in Note 11 and 10. The amount of gross investment in leases pledged as collateral comprised 62,488 thousand GEL (2020: GEL 64,105 thousand), the amount of advances towards leasing contracts pledged as collateral comprised 2,462 thousand GEL (2020: GEL 1,670 thousand).

Refer to Note 32 for the estimated fair value of debt security in issue. The information on related party balances and transactions is disclosed in Note 35.

20. SUBORDINATED LOANS

In thousands of Georgian Lari	Interest rates	Maturity	31 December 2021	31 December 2020
Subordinated loans from TBC	18%	31.07.2023	2,449	2,448
Subordinated bonds	8.5%	25.01.2023	31,242	32,964
Total Subordinated Loans			**33,691**	**35,412**

As at 31 December 2021, accrued interest payable included in subordinated loans amounted to GEL 360 thousand (2020: GEL 390 thousand).

Refer to Note 32 for the estimated fair value of subordinated loans. The information on related party balances and transactions is disclosed in Note 35.

21. OTHER LIABILITIES

In thousands of Georgian Lari	31 December 2021	31 December 2020
Liabilities to asset providers	2,068	1,609
Liabilities to service providers	1,025	419
Lease liabilities	913	569
Accrued expenses	434	455
Other liabilities	194	
Total other financial liabilities	**4,634**	**3,052**
Bonuses payable	1,867	1,531
Total other non-financial liabilities	1,867	1,531
Total other liabilities	**6,501**	**4,583**

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

Bonuses payable are short-term by their nature. The current and non-current portion of other financial liability is presented in Note 29 .

21. OTHER LIABILITIES CONTINUED

The table below represents the maturity of lease liabilities as of December 2021 and 2020 respectively:

In thousands of Georgian Lari	2021	2020
Up to 1 month	36	36
1 month to 3 months	53	76
3 months to 1 year	236	338
1 year to 5 years	588	119
Total Lease Liabilities	**913**	**569**

22. SHARE CAPITAL

The share capital of the Company as at 31 December 2021 was GEL 3,659 thousand (2020: GEL3,659 thousand). In December 2019 company issued GEL 600 thousand ordinary shares with the face value of 1,000 GEL each and issue price of 10,000 GEL per share. As at 31 December 2021 the total number of authorised, issued and paid shares comprised 3,659 common shares with par value of GEL 1,000 each. Each share carries one vote. There was no movement on share capital during 2020 and 2021 years. Additional paid-in capital amounted to GEL 7,550 thousand as at 31 December 2021 and 2020 and is an excess of the fair value of the consideration received over the par value of shares issued.

23. OTHER INCOME

In thousands of Georgian Lari	2021	2020
Interest income on bank deposits	2,774	2,438
Sundry income	336	872
Other income	**3,110**	**3,310**

24. SEGMENT REPORTING

Operating segments are components that engage in business activities that may earn revenues or incur expenses. The operating segments are determined as follows:

- Business – All Leases to legal entities or group of entities where asset financed is everything but vehicles
- Automotive – All Leases to legal entities or group of entities where asset financed is vehicle
- Retail – non-business individual customers;
- Corporate centre and other operations - comprises of the treasury and financial risk management unit

The Company's management assesses the performance of the operating segments based on a measure of Total Comprehensive Income/ (Loss) for the year.

The reportable segments are the same as the operating segments.

The Company's revenues are attributable to Georgia. A geographic analysis of origination of the assets and liabilities is given in Financial Risk Management Note.

Allocation of indirect expenses is performed based on drivers identified for each type of cost if possible. If there is no identifiable driver for any type of expense/overhead cost, those expenses are allocated between segments based on the same logic as applied for the expenses with similar nature.

24. SEGMENT REPORTING CONTINUED

Until 2021, the financial results of the Company was analysed for full business, with no discrete financial information prepared and processed per different directions. Thus from segment reporting perspective management assumed the business represented one operating segment. Disclosure in the financial statements was limited to per product breakdown only. From 2021 with growing of the business management has started to record, track and analyse operations for different directions segregating operational segments and reporting respective financial information to the board. Segment disclosures in these statements have been enhanced accordingly.

A summary of the reportable segments for the years ended 31 December 2021 and 2020 (per new segmentation) provided below:

In thousands of Georgian Lari	Business	Automotive	Retail	Corporate center and other operations	Total
Income on investment in leases	40,309	7,623	9,163	-	**57,095**
Income from operating leasing	-	2,444	-	-	**2,444**
Interest expense	(18,007)	(3,254)	(3,525)	-	**(24,786)**
Direct leasing costs	(4,968)	(2,310)	(1,766)	-	**(9,044)**
Net lease income	**17,334**	**4,503**	**3,872**	**-**	**25,709**
Credit loss allowance for net investment in finance lease	1,767	1,110	207	-	3,084
Net lease income after expected credit loss	**19,101**	**5,613**	**4,079**	**-**	**28,793**
Credit loss allowance for other financial assets	(6,139)	(1,421)	(954)	-	**(8,514)**
Gain from revaluation of investment property	26	-	-	-	**26**
Losses from sale/release of repossessed assets	(75)	(15)	8	-	**(82)**
Gain on initial recognition of repossessed assets	99	-	-	-	**99**
Write-down of repossessed assets to net realizable value	(264)	-	-	-	**(264)**
Losses net of gain from derivative financial instruments	-	-	-	(2,769)	**(2,769)**
Foreign exchange translation gains less losses	-	-	-	1,915	**1,915**
Administrative and other operating expenses	(6,388)	(2,196)	(1,132)	(458)	**(10,174)**
Other income	-	155	-	2,955	**3,110**
PROFIT FOR THE YEAR	**6,360**	**2,136**	**2,001**	**1,643**	**12,140**
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Gains on cash flow hedges	-	-	-	264	**264**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**6,360**	**2,136**	**2,001**	**1,907**	**12,404**
Cash and cash equivalents	**-**	**-**	**-**	**16,765**	**16,765**
Due from banks	**-**	**-**	**-**	**29,016**	**29,016**
Advances towards leasing contracts	**26,489**	**59**	**2,374**	**-**	**28,922**
Gross investment in finance lease	**192,623**	**31,417**	**29,712**	**-**	**253,752**

24. SEGMENT REPORTING CONTINUED

In thousands of Georgian Lari	**Business**	**Automo-tive**	**Retail**	**Corporate center and other oper-ations**	**Total**
Income on investment in leases	30,810	5,518	9,250	-	**45,578**
Income from operating leasing	-	3,218	-	-	**3,218**
Interest expense	(18,252)	(3,435)	(3,779)	-	**(25,466)**
Direct leasing costs	(6,087)	(1,240)	(893)	-	**(8,220)**
Net lease income	**6,471**	**4,061**	**4,578**	**-**	**15,110**
Credit loss allowance for net investment in finance lease	(6,904)	(1,254)	41	-	(8,117)
Net lease income after expected credit loss	**(433)**	**2,807**	**4,619**	**-**	**6,993**
Credit loss allowance for other financial assets	(958)	(265)	(1,545)	-	**(2,768)**
Gain from revaluation of investment property	149	-	-	-	**149**
Gain from sale/release of repossessed assets	589	111	2	-	**702**
Gain on initial recognition of repossessed assets	48	-	-	-	**48**
Write-down of repossessed assets to net realizable value	(187)	-	-	-	**(187)**
Gains net of losses from derivative financial instruments	-	-	-	6,077	**6,077**
Foreign exchange translation losses less gains	-	-	-	(8,205)	**(8,205)**
Administrative and other operating expenses	(5,485)	(2,167)	(1,185)	(440)	**(9,277)**
Other income	235	28	6	3,041	**3,310**
LOSS FOR THE YEAR	**(6,042)**	**514**	**1,897**	**473**	**(3,158)**
Other comprehensive loss:					
Items that may be reclassified subsequently to profit or loss:					
Loss on cash flow hedges	-	-	-	(394)	**(394)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(6,042)**	**514**	**1,897**	**79**	**(3,552)**
Cash and cash equivalents	**-**	**-**	**-**	**69,974**	**69,974**
Due from banks	**-**	**-**	**-**	**21,383**	**21,383**
Advances towards leasing contracts	**10,263**	**9**	**9**	**-**	**10,281**
Gross investment in finance lease	**210,900**	**37,892**	**32,529**	**-**	**281,321**

24. SEGMENT REPORTING CONTINUED

Reportable segments' assets were reconciled to total assets as follows:

In thousands of Georgian Lari	**31 December 2021**	**31 December 2020 (per new segmentation)**
ASSETS		
Total Segment Assets (Gross)	328,455	382,959
Credit loss allowance	(7,309)	(10,487)
Prepayments	2,732	3,089
Tax assets, net	6,825	2,795
Property and equipment	4,194	6,670
Intangible assets	2,510	2,381
Investment property	2,385	2,359
Assets repossessed from terminated leases	9,924	7,583
Derivative financial Instruments	56	1,791
Other financial assets	21,089	7,166
Other assets	123	165
TOTAL ASSETS PER STATEMENT OF FINANCIAL POSITION	**370,984**	**406,471**
LIABILITIES		
Total Segment Liabilities	16,918	8,623
Loans from banks and financial institutions	207,635	264,246
Debt securities in issue	58,342	58,114
Subordinated loans	33,691	35,412
Other liabilities	6,501	4,583
TOTAL LIABILITIES PER STATEMENT OF FINANCIAL POSITION	**323,087**	**370,978**

The table below represents the income on investment in leases by product, as disclosed for 2020 financial statements:

Product Types	**2020 (Per old segmentation)**
Corporate Lease Portfolio	30,799
New Cars	7,834
Project Financing New and Used Cars	1,617
Used Local Cars	2,772
Used Imported Cars	2,556
Total Income on investment in leases	**45,578**

25. DIRECT LEASING COSTS

The table below represents direct leasing costs for the 2021 and 2020 years respectively.

In thousands of Georgian Lari	2021	2020
Insurance expenses	5,302	5,427
Property tax on leasing assets	3,625	2,590
Other leasing costs	117	203
Total direct leasing costs	**9,044**	**8,220**

26. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

In thousands of Georgian Lari	2021	2020
Staff costs	5,491	4,998
Depreciation and amortization charge	1,539	1,740
Taxes other than income tax	930	293
Professional services	484	475
License and subscription cost	335	247
Expenses on assets maintenance	244	313
Other property insurance expenses	208	149
Bank charges	174	252
Advertising costs	170	133
Occupancy and rent	110	164
Land and buildings maintenance	15	27
Other expenses	474	486
Total administrative and other operating expenses	**10,174**	**9,277**

Occupancy and rent include the leases of low-value assets amount of GEL 90 thousand.

As of 31 December 2021, professional services included GEL 183 thousand related to financial audit (2020: GEL193 thousand) and GEL 15 thousand related to TAX Audit (2020: GEL15 thousand). Presented expenses are exclusive of taxes.

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Liabilities from financing activities				
In thousands of Georgian Lari	**Loans from banks and financial institutions**	**Debt Securities in Issue**	**Subordinated Loans**	**Lease Liability**	**Total**
Net debt at 31 December 2019	**242,196**	**-**	**31,227**	**734**	**274,157**
Cash flows	(26,891)	52,534	(3,042)	(563)	22,038
Foreign exchange adjustments	32,915	-	4,097	379	37,391
Interest accrual	16,719	5,580	3,130	37	25,466
Other non-cash movements	(693)	-	-	(148)	(841)
Net debt at 31 December 2020	**264,246**	**58,114**	**35,412**	**439**	**358,211**
Cash flows	(53,186)	(7,032)	(3,189)	(467)	(63,874)
Foreign exchange adjustments	(17,493)	-	(1,804)	64	(19,233)
Interest accrual	14,112	7,260	3,272	142	24,786
Other non-cash movements	(44)	-	-	507	463
Net debt at 31 December 2021	**207,635**	**58,342**	**33,691**	**685**	**300,353**

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

The information on related party balances and transactions is disclosed in Note 35.

28. HEDGING

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

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

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

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

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

28. HEDGING CONTINUED

Hedging instruments and Hedged items

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

The table below represents the hedging positions as of 31 December 2021:

Amounts expressed in thousands of nominal currency

	Type	Currency	Amount in nominal	Rate	Line item reporting in the Statement of Financial Position
Hedged item	Firm commitment to lease asset purchase	USD	275		Off-balance sheet exposure
Hedging Instrument	Net investment in finance lease	USD	275	15.0%	Net investment in finance lease
Hedged item	Firm commitment to lease asset purchase	EUR	415		Off-balance sheet exposure
Hedging Instrument	Net investment in finance lease	EUR	415	7%-11%	Net investment in finance lease
Hedged item	Firm commitment to NIFL	USD	398		Off-balance sheet exposure
Hedging Instrument	Senior Loan	USD	398	5.80%	Loans from banks and financial institutions

Amounts expressed in thousands of nominal currency

	Type	Currency	Amount in nominal	Rate	Line item reporting in the Statement of Financial Position
Hedged item	Firm commitment to NIFL	USD	3,247		Advances towards leasing contracts
Hedging Instrument	Senior Loan	USD	3,247	4.5%-5.7%	Loans from banks and financial institutions
Hedged item	Firm commitment to NIFL	EUR	1,555		Advances towards leasing contracts
Hedging Instrument	Senior Loan	EUR	1,555	3.11%	Loans from banks and financial institutions

28. HEDGING CONTINUED

The table below represents the hedging positions as of 31 December 2020:

Amounts expressed in thousands of nominal currency

	Type	Currency	Amount in nominal	Rate	Line item reporting in the Statement of Financial Position
Hedged item	Firm commitment to lease asset purchase	USD	492		Off-balance sheet exposure
Hedging Instrument	FX Derivative contract	USD	492	2.9%-3.3%	Derivative financial instruments
Hedged item	Firm commitment to lease asset purchase	USD	905		Off-balance sheet exposure
Hedging Instrument	Net investment in finance lease	USD	905	12%-13.6%	Net investment in finance lease
Hedged item	Firm commitment to lease asset purchase	EUR	116		Off-balance sheet exposure
Hedging Instrument	Net investment in finance lease	EUR	116	9.7%-11.5%	Net investment in finance lease

Amounts expressed in thousands of nominal currency

	Type	Currency	Amount in nominal	Rate	Line item reporting in the Statement of Financial Position
Hedged item	Firm commitment to NIFL	EUR	148		Off-balance sheet exposure
Hedging Instrument	Senior Loan	EUR	148	2.9%- 3.70%	Loans from banks and financial institutions
Hedged item	Firm commitment to NIFL	USD	468		Advances towards leasing contracts
Hedging Instrument	Senior Loan	USD	468	4%-5.75%	Loans from banks and financial institutions
Hedged item	Firm commitment to NIFL	EUR	971		Advances towards leasing contracts
Hedging Instrument	Senior Loan	EUR	971	2.9%- 3.70%	Loans from banks and financial institutions

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

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

28. HEDGING CONTINUED

The amounts that have affected statement of comprehensive income related to the hedge accounting, is disclosed bellow:

Hedge Item Type *In thousands of Georgian Lari*	**The amount recognised in Other Comprehensive Income(2021)**	**The amount recognised in Other Comprehensive In-come(2020)**
Firm commitment to lease asset purchase	(336)	(46)
Firm commitment to NIFL	600	(348)
Gains / (Loss) on cash flow hedges	264	(394)

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

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

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

29. FINANCIAL RISK MANAGEMENT

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

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

Risk management and monitoring is performed within set limits of authority, by the Credit Committee of the Parent and the Company's Management Board. The Parent's Credit Committee is involved in decisions of issue leases with value more than USD 1,500,000. Before any application is made to the Credit Committee or the Company's Management Board, all recommendations on lease processes (lessee's limits approved, or amendments made to lease agreements, etc.) are reviewed and approved by the risk-manager or the Credit Department.

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

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

The management also assesses collectability of other financial assets on quarterly basis, based on the financial performance of debtors and other factors, such as results of legal cases at court. Management believes that provision created for other financial assets is adequate at the reporting date.

Credit Quality: Financial assets are classified in credit quality grades by taking into account the internal and external credit quality information (e.g. delinquency).The Company defines following credit risk grade:

- Very low risk – exposures demonstrate strong ability to meet financial obligations;
- Low risk – exposures demonstrate adequate ability to meet financial obligations;
- Moderate risk – exposures demonstrate satisfactory ability to meet financial obligations;
- High risk – exposures that require closer monitoring, and
- Default – exposures in default, with observed credit impairment.

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

The Company uses is a three-stage model for ECL measurement and classifies its borrowers across three stages: The Company classifies its exposures as Stage 1 if no significant deterioration in credit quality occurred since initial recognition and the instrument was not credit-impaired when initially recognized. The exposure is classified to Stage 2

29. FINANCIAL RISK MANAGEMENT CONTINUED

if the significant deterioration in credit quality was identified since initial recognition, but the financial instrument is not considered credit-impaired. The exposures for which the credit-impairement indicators have been identified are classified as Stage 3 instruments. The Expected Credit Loss (ECL) amount differs depending on exposure allocation to one of the Stages. In the case of Stage 1 instruments, the ECL represents that portion of the lifetime ECL that can be attributed to default events occurring within the next 12 months from the reporting date. In case of Stage 2 instruments, the ECL represents the lifetime ECL, i.e. credit losses that can be attributed to possible default events during the whole lifetime of a financial instrument. Generally, lifetime is set equal to the remaining contractual maturity of the financial instrument. In case of Stage 3 instruments, default event has already incurred and the lifetime ECL is estimated based on the expected recoveries.

The Company utilizes two approaches for ECL measurement – individual assessment and collective assessment. Individual assessment is used for individually significant leases with lease liability of at least GEL 2.5 million. Additionally, the Company may arbitrarily designate selected exposures to individual measurement of ECL based on the Company's credit risk management or underwriting departments' decision.

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

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

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

SICR indicator	Entrance conditions	Exit conditions
1. DPD 30 threshold	The number of days past due exceeded the limit of 30 days (irrespective of the overdue amount). In case of Corporate/SME borrowers, if the entrance condition is met at least one contract, all of the borrower's contracts are classified to Stage 2.	The number of days past due (on any contract of the client) does not exceed 30 anymore (irrespective of the overdue amount).
2. Restructuring	The contract was restructured but the restructuring is not distressed, i.e. the exposure is not defaulted ("GOOD" restructuring)	6 consecutive months of no more than 30 days past due since restructuring date
3. Default Exit period (passed probation for default)	6 consecutive months have passed of no more than 30 days overdue after the date of DPD 90 or date of "BAD" restructuring	6 consecutive months of no more than 60 days past due since Default Exit entrance date

In addition to the standard SICR criteria described in the table above, due to global pandemic situation, the following was applied to the year ended 31 December 2020 lease portfolio: all clients from Covid-affected sectors (which are in turn determined by our credit risk department, using sector forecasts, where these sectors show significant declines), were moved to stage 2 (unless obviously they fell in stage 3). In addition to that, restructurings that where categorized as "GOOD" before grace, were not removed from stage 2 pool because of application of grace period. Although from December 2021, none of these additional criteria are valid for provisioning purposes, as the negative effect of COVID pandemic is already captured via standard criteria from IFRS provisioning methodology, namely days past due and restructurings.

29. FINANCIAL RISK MANAGEMENT CONTINUED

Default criteria: As a result of COVID-19, the company applied additional criteria to compromised contracts as at year ended 31 December 2020, facilitating early identification of defaults, not detected otherwise mainly due to payment holidays. Namely, clients with Zero or negligible payments throughout 2020 were considered as stage 3. Also, restructurings that were categorized as BAD before grace period, are not removed from default pool because of application of grace –bad restructurings went through 6 payments before being removed from default status, irrespective of grace.

As at year ending 31 December 2021, no temporary criteria described in the above paragraph are applied, as the negative effect of COVID pandemic is already captured via our standard criteria – DPDs and restructurings.

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

SICR indicator	Entrance conditions	Exit conditions
1. 90 DPD	Exposure past due by more than 90 days	6 consecutive months of not more than 30 days past due after last reporting date of 90 DPD
2. Distressed restructuring	Exposure classified as distressed or “BAD” restructuring	6 consecutive months of no more than 30 days past due since restructuring date
3. UTP	Individually significant exposure, is considered to be default if financial healthiness of the company deteriorated identified by analysis of company data and/or financials used for ECL calculations	6 consecutive months of no more than 30 days past due since considered as default due to UTP

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

Probability of default (PD). Probability of default parameter describes the likelihood of a default of a facility over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its contractual debt obligations. The PD parameter is time-dependent (i.e. has a specific term structure) and is applied to all non-defaulted contracts.

The model is based on the estimation of short-term and long-term PD estimates. The former is estimated on the yearly default rate observed for a period that is considered representative of short-term default propensity. The lessee’s risk group differentiates the parameter. The latter is representative of the long-term default propensity of leasing company clients regardless of their risk group assignment.

Leasing company defines the risk groups based on selected criteria (e.g. current days past due status of the lessee) so that the separate risk groups perform significantly different in terms of the default propensity. The model assumes that the PD for the next yearly period after the reporting date is equal to the short-term PD estimate and depends on the risk group assignment. Long-term PD estimate is used for yearly periods starting from the 4th year after the reporting date, while linear interpolation of PDs in assumed in-between.

For Long-term PD estimation purposes, the Leasing Company applies default rates. Default rates are calculated as volume of defaulted exposures within the period divided by the total performing exposures at the beginning of the period.

29. FINANCIAL RISK MANAGEMENT CONTINUED

Loss given default (LGD). The LGD parameter represents the share of exposure that would be irretrievably lost if a borrower defaults. For Stage 1 and Stage 2 financial instruments, the LGD is estimated for each period in the instrument's lifetime and reflects the share of the expected EAD for that period that will not be recovered over the remaining lifetime of the instrument after the default date. For Stage 3 financial instruments, the LGD represents the share of the EAD as of reporting date that will not be recovered over the remaining life of that instrument. Assessment of LGD varies by main business directions of the company. For each LGD portfolio the Group defines the recovery horizon, since the default date after which no material recoveries are assumed. Recovery horizon is defined by data analytics and expert judgment.

Forward-looking information. The measurement of unbiased, probability weighted ECL requires inclusion of forward looking information obtainable without undue cost or effort. For forward looking information purposes the Company defines three macro scenarios. The scenarios are defined as baseline (most likely), upside (better than most likely), and downside (worse than most likely) 50%, 25%, and 25% respectively as at year ended 31 December 2021 and 60%,10% and 30% as at year ended 31 December 2020. In the year 2020, the scenario probabilities were adjusted due to the prolongation and severity of the COVID-19 pandemic impact. As at 31 December 2021 though, they are back at 50%, 25%, and 25% as they were in all previous years since IFRS 9 came into force). To derive the baseline macro-economic scenario, the Company takes into account forecasts from various external sources – the National Bank of Georgia, Ministry of Finance, International Monetary Fund ("IMF"), TBC Capital, as well as other International Financial Institutions ("IFI'"s) – in order to ensure the consensus market expectations. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit.

Risk associated with underlying assets. To manage the risk associated with lease assets, the company uses buy-back option with certain vendors. If a lease with such feature defaults, the vendor makes payment of a predetermined amount depending on time since lease commencement. Another tool used by the company is linked to periodic monitoring of lease assets by our asset monitoring division. If asset is damaged more than it should have been under normal working conditions, the issue is reported to lease managers and the credit risk department. The case-by-case decision is made and lessee may be required to make early repayment to compensate for a larger than normal decrease in asset value.

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

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

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

Climate risk. The Company's management has taken note of global awareness and concerns about the potential impact of climate change. Currently, this matter has had no significant impact on the consolidated financial statements, but Management continues to monitor developments in this area.

29. FINANCIAL RISK MANAGEMENT CONTINUED

The Company's exposure to foreign currency exchange rate risk as at 31 December 2021 is presented in the table below:

In thousands of Georgian Lari	GEL	USD	EUR	Other	TOTAL
Cash and cash equivalents	9,749	965	6,045	6	**16,765**
Due From Banks	15,000	-	14,016	-	**29,016**
Net investment in finance lease	105,152	80,958	60,333	-	**246,443**
Derivative financial Instruments	11,926	9,293	-	-	**21,219**
Other financial assets	8,850	8,759	3,480	-	**21,089**
Total financial assets	**150,677**	**99,975**	**83,874**	**6**	**334,532**
Loans from banks and financial institutions	64,670	67,543	75,422	-	**207,635**
Debt Securities in issue	58,342	-	-	-	**58,342**
Advances received from customers	6,823	5,693	4,402	-	**16,918**
Subordinated loans	2,449	31,242	-	-	**33,691**
Derivative financial Instruments	9,295	8,364	3,504	-	**21,163**
Other financial liabilities	1,542	2,802	290	-	**4,634**
Total financial liabilities	**143,121**	**115,644**	**83,618**	**-**	**342,383**
Net balance sheet position before the effect of economic hedges	**7,556**	**(15,669)**	**256**	**6**	**(7,851)**
Effect of economic hedges*	10,620	14,879	3,391	-	**28,890**
Net balance sheet position	**18,176**	**(790)**	**3,647**	**6**	**21,039**

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

29. FINANCIAL RISK MANAGEMENT CONTINUED

The Company's exposure to foreign currency exchange rate risk as at 31 December 2020 as reclassified is presented in the table below:

In thousands of Georgian Lari	GEL	USD	EUR	Other	TOTAL
Cash and cash equivalents	48,094	466	21,373	41	**69,974**
Due From Banks	5,000	16,383	-	-	**21,383**
Net investment in finance lease	111,647	101,071	58,116	-	**270,834**
Derivative financial Instruments	17,189	1,638	22,867	-	**41,694**
Other financial assets	1,929	5,112	125	-	**7,166**
Total financial assets	**183,859**	**124,670**	**102,481**	**41**	**411,051**
Loans from banks and financial institutions	101,956	58,539	103,751	-	**264,246**
Debt Securities in issue	58,114	-	-	-	**58,114**
Advances received from customers	6,864	355	1,404	-	**8,623**
Subordinated loans	2,448	32,964	-	-	**35,412**
Derivative financial Instruments	13,022	26,881	-	-	**39,903**
Other financial liabilities	895	1,605	552	-	**3,052**
Total financial liabilities	**183,299**	**120,344**	**105,707**	**-**	**409,350**
Net balance sheet position before the effect of economic hedges	**560**	**4,326**	**(3,226)**	**41**	**1,701**
Effect of economic hedges*	9,280	(2,817)	4,050	-	**10,513**
Net balance sheet position	**9,840**	**1,509**	**824**	**41**	**12,214**

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

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

Currency sensitivity analysis. The following table details the Company's sensitivity to a 10% (2020: 10%) increase and decrease in the USD against the GEL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates.

	31 December 2021		**31 December 2020**	
In thousands of Georgian Lari	**Impact on profit or loss before tax**	**Impact on equity**	**Impact on profit or loss before tax**	**Impact on equity**
US Dollar/ Euros strengthening by 10% (2020: 10%)	286	286	233	233
US Dollar/ Euros weakening by 10% (2020: 10%)	(286)	(286)	(233)	(233)

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

29. FINANCIAL RISK MANAGEMENT CONTINUED

The table below presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts as at 31 December 2021, categorised by the earlier of contractual interest re-pricing or maturity dates.

In thousands of Georgian Lari	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	TOTAL
Financial Assets					
Cash and cash equivalents	16,765	-	-	-	**16,765**
Due From Banks	-	-	29,016	-	**29,016**
Net investment in finance lease	13,963	15,012	62,713	154,755	**246,443**
Derivative financial Instruments	21,219	-	-	-	**21,219**
Other financial assets	19,630	170	386	903	**21,089**
Total financial assets	**71,577**	**15,182**	**92,115**	**155,658**	**334,532**
Financial Liabilities					
Loans from banks and financial institutions	13,065	14,636	46,165	133,769	**207,635**
Debt securities in issue	199	-	-	58,143	**58,342**
Advances received from customers	6,925	3,731	6,262	-	**16,918**
Subordinated loans	312	-	15,488	17,891	**33,691**
Derivative financial Instruments	21,163	-	-	-	**21,163**
Other financial liabilities	3,755	53	236	590	**4,634**
Total financial liabilities	**45,419**	**18,420**	**68,151**	**210,393**	**342,383**
Net interest rate sensitivity gap before effect of economic hedges	**26,158**	**(3,238)**	**23,964**	**(54,735)**	**(7,851)**
Effect of economic hedges	**15,657**	**5,375**	**7,858**	**-**	**28,890**
Net interest rate sensitivity gap	**41,815**	**2,137**	**31,822**	**(54,735)**	**21,039**

29. FINANCIAL RISK MANAGEMENT CONTINUED

The table below presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts as at 31 December 2020, categorised by the earlier of contractual interest re-pricing or maturity dates.

In thousands of Georgian Lari	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	TOTAL
Financial Assets					
Cash and cash equivalents	69,974	-	-	-	**69,974**
Due From Banks	-	-	21,383	-	**21,383**
Net investment in finance lease	10,034	13,109	73,150	174,541	**270,834**
Derivative financial Instruments	29,089	-	12,605	-	**41,694**
Other financial assets	4,969	263	670	1,264	**7,166**
Total financial assets	**114,066**	**13,372**	**107,808**	**175,805**	**411,051**
Financial Liabilities					
Loans from banks and financial institutions	2,804	11,509	66,047	183,886	**264,246**
Debt securities in issue	167	-	-	57,947	**58,114**
Advances received from customers	5,715	2,506	402	-	**8,623**
Subordinated loans	295	-	-	35,117	**35,412**
Derivative financial Instruments	28,529	-	11,374	-	**39,903**
Other financial liabilities	2,520	75	338	119	**3,052**
Total financial liabilities	**40,030**	**14,090**	**78,161**	**277,069**	**409,350**
Net interest rate sensitivity gap before effect of economic hedges	**74,036**	**(718)**	**29,647**	**(101,264)**	**1,701**
Effect of economic hedges	**6,682**	**2,801**	**1,030**	**-**	**10,513**
Net interest rate sensitivity gap	**80,718**	**2,083**	**30,677**	**(101,264)**	**12,214**

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

The maturity analysis of financial liabilities based on remaining undiscounted contractual obligations at 31 December 2021 is as follows:

In thousands of Georgian Lari	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	TOTAL
Financial Assets					
Loans from banks and financial institutions	13,529	16,825	54,197	146,941	**231,492**
Debt securities in issue	199	1,955	5,866	60,056	**68,076**
Advances received from customers	6,925	3,731	6,262	-	**16,918**
Subordinated loans	681	396	17,805	18,465	**37,347**
Derivative financial Instruments	21,163	-	-	-	**21,163**
Other financial liabilities	3,755	53	236	590	**4,634**
Total potential future payments for financial liabilities	**46,252**	**22,960**	**84,366**	**226,052**	**379,630**

29. FINANCIAL RISK MANAGEMENT CONTINUED

The maturity analysis of financial liabilities based on remaining undiscounted contractual obligations at 31 December 2020 is as follows:

In thousands of Georgian Lari	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	TOTAL
Financial Assets					
Loans from banks and financial institutions	3,979	14,878	77,248	202,629	**298,734**
Debt securities in issue	167	1,622	4,814	66,424	**73,027**
Advances received from customers	5,715	2,506	402	-	**8,623**
Subordinated loans	766	392	2,325	38,869	**42,352**
Derivative financial Instruments	28,529	-	11,374	-	**39,903**
Other financial liabilities	2,520	75	338	119	**3,052**
Total potential future payments for financial liabilities	**41,676**	**19,473**	**96,501**	**308,041**	**465,691**

The Company does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Company monitors liquidity gap analysis based on the expected maturities of discounted financial assets and liabilities. The expected liquidity gap as at 31 December 2021 is presented in the following table:

In thousands of Georgian Lari	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	TOTAL
Financial Assets					
Cash and cash equivalents	16,765	-	-	-	**16,765**
Due From Banks	-	-	29,016	-	**29,016**
Net investment in finance lease	13,963	15,012	62,713	154,755	**246,443**
Derivative financial Instruments	21,219	-	-	-	**21,219**
Other financial assets	19,630	170	386	903	**21,089**
Total financial assets	**71,577**	**15,182**	**92,115**	**155,658**	**334,532**
Financial Liabilities					
Loans from banks and financial institutions	13,065	14,636	46,165	133,769	**207,635**
Debt securities in issue	199	-	-	58,143	**58,342**
Advances received from customers	6,925	3,731	6,262	-	**16,918**
Subordinated loans	312	-	15,488	17,891	**33,691**
Derivative financial Instruments	21,163	-	-	-	**21,163**
Other financial liabilities	3,755	53	236	590	**4,634**
Total financial liabilities	**45,419**	**18,420**	**68,151**	**210,393**	**342,383**
Effect of economic hedges	**15,657**	**5,375**	**7,858**	**-**	**28,890**
Liquidity gap	**41,815**	**2,137**	**31,822**	**(54,735)**	**21,039**
Cumulative liquidity gap	**41,815**	**43,952**	**75,774**	**21,039**	

29. FINANCIAL RISK MANAGEMENT CONTINUED

The expected liquidity gap as at 31 December 2020 as reclassified, is presented in the following table:

In thousands of Georgian Lari	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	TOTAL
Financial Assets					
Cash and cash equivalents	69,974	-	-	-	**69,974**
Due From Banks	-	-	21,383	-	**21,383**
Net investment in finance lease	10,034	13,109	73,150	174,541	**270,834**
Derivative financial Instruments	29,089	-	12,605	-	**41,694**
Other financial assets	4,969	263	670	1,264	**7,166**
Total financial assets	**114,066**	**13,372**	**107,808**	**175,805**	**411,051**
Financial Liabilities					
Loans from banks and financial institutions	2,804	11,509	66,047	183,886	**264,246**
Debt securities in issue	167	-	-	57,947	**58,114**
Advances received from customers	5,715	2,506	402	-	**8,623**
Subordinated loans	295	-	-	35,117	**35,412**
Derivative financial Instruments	28,529	-	11,374	-	**39,903**
Other financial liabilities	2,520	75	338	119	**3,052**
Total financial liabilities	**40,030**	**14,090**	**78,161**	**277,069**	**409,350**
Effect of economic hedges	**6,682**	**2,801**	**1,030**	**-**	**10,513**
Liquidity gap	**80,718**	**2,083**	**30,677**	**(101,264)**	**12,214**
Cumulative liquidity gap	**80,718**	**82,801**	**113,478**	**12,214**	

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

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

30. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company considers its capital to be equity and subordinated loans. The amount of capital that the Company managed as of 31 December 2021 was GEL 81,588 thousand (2020: GEL70,905 thousand).

31. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	2021		2020	
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
- **USD** payable on settlement (-)	(8,364)	-	(26,880)	-
- **USD** receivable on settlement (+)	-	9,293	-	1,638
- **GEL** payable on settlement (-)	-	(9,295)	(11,374)	(1,648)
- **GEL** receivable on settlement (+)	11,926	-	17,189	-
- **EUR** payable on settlement (-)	(3,504)	-	-	-
- **EUR** receivable on settlement (+)	-	-	22,866	-
Fair value of foreign exchange forwards and swaps	**58**	**(2)**	**1,801**	**(10)**
Net fair value of foreign exchange forwards and swaps	**56**		**1,791**	

The (losses net of gain)/ gains net of losses from derivative financial instruments for year 2021 amounted to GEL (2,769) thousand. (2020 GEL 6,077 thousand).

32. FAIR VALUE DISCLOSURES

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy.

(a) Recurring fair value measurements

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

	31 December 2021				31 December 2020			
In thousands of Georgian Lari	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at Fair Value								
Financial Assets								
Derivative financial instruments	-	56	-	**56**	-	1,791	-	**1,791**
Non-Financial Assets								
Investment property	-	2,385	-	**2,385**	-	2,359	-	**2,359**
Total Liabilities Recurring Fair Value Measurements	**-**	**2,441**	**-**	**2,441**	**-**	**4,150**	**-**	**4,150**

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

In thousands of Georgian Lari	**2021**	**2020**	**Valuation technique**	**Inputs used**
Assets at Fair Value				
Financial Assets				
Derivative financial instruments	56	1,791	Forward pricing using present value calculations	Market interest rates, official exchange rate
Non-Financial Assets				
Investment property	2,385	2,359	Market approach based on the highest and best use analysis of the property	Price per square meter
Total Assets Recurring Fair Value Measurements	**2,441**	**4,150**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2021 (2020: none).

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

32. FAIR VALUE DISCLOSURES CONTINUED

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

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

	31 December 2021				31 December 2020			
In thousands of Georgian Lari	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Financial assets								
Cash and cash equivalents	16,765	-	-	16,765	69,974	-	-	69,974
Due from banks	-	29,016	-	29,016	-	21,383	-	21,383
Net investment in finance lease	-	-	245,843	246,443	-	-	274,964	270,834
Other financial assets	-	-	20,747	21,089	-	-	6,766	7,166
Total assets	**16,765**	**29,016**	**266,590**	**313,313**	**69,974**	**21,383**	**281,730**	**369,357**
Financial liabilities								
Loans from banks and finan-cial institutions	-	208,940	-	207,635	-	262,841	-	264,246
Debt securities in issue	-	58,400	-	58,342	-	58,400	-	58,114
Advances received from customers	-	13,953	-	13,953	-	4,153	-	4,153
Subordinated loans	-	33,423	-	33,691	-	35,213	-	35,412
Other financial liabilities	-	4,634	-	4,634	-	3,052	-	3,052
Total liabilities	**-**	**319,350**	**-**	**318,255**	**-**	**363,659**	**-**	**364,977**

Cash and cash equivalents are carried at amortised cost, which equals current fair value. Net investment in finance lease and other financial assets are stated net of credit loss allowance. Loans from banks and subordinated loans are measured at amortised cost. The estimated fair value of these financial assets represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The fair values in level 2 and level 3 of the fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. The discount rates used were consistent with the Company's credit risk and also depend on currency and maturity of the instrument.

33. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2021:

In thousands of Georgian Lari	**Amortised cost**	**Fair value through profit or loss**	**Total**
Assets			
Cash and cash equivalents	16,765	-	16,765
Due from banks	29,016	-	29,016
Net investment in finance lease	246,443	-	246,443
Derivative Financial Instruments	-	56	56
Other financial assets	21,089	-	21,089
TOTAL FINANCIAL ASSETS	**313,313**	**56**	**313,369**

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2020:

In thousands of Georgian Lari	**Amortised cost**	**Fair value through profit or loss**	**Total**
Assets			
Cash and cash equivalents	69,974	-	69,974
Due from banks	21,383	-	21,383
Net investment in finance lease	270,834	-	270,834
Derivative Financial Instruments	-	1,791	1,791
Other financial assets	7,166	-	7,166
TOTAL FINANCIAL ASSETS	**369,357**	**1,791**	**371,148**

34. CONTINGENCIES AND COMMITMENTS

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

Tax legislation. Georgian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. Management believes that its interpretation of the relevant legislation is appropriate and the Company's tax positions will be sustained. Accordingly, at 31 December 2021 and 2020 no provision for potential tax liabilities has been recorded.

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

Management believes that it has implemented internal controls to be in compliance with the TP legislation. Given that the practice of implementation of the Georgian transfer pricing rules has not yet developed, the impact of any

34. CONTINGENCIES AND COMMITMENTS CONTINUED

challenge of the Company's transfer prices cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Company.

Compliance with covenants. The Company is subject to certain covenants related primarily to its borrowings from banks and international financial institutions. Non-compliance with such covenants may result in negative consequences for the Company, including growth in the cost of borrowings and the timing of repayment.

During 2020, in agreement with international financial institutions, the restructurings related to the COVID -19 for 2020 were not included in the calculation of financial covenants, but rather reported separately for monitoring purposes.

The Company was in compliance with the covenants as of 31 December 2021 and as of 31 December 2020.

Compliance with lease liabilities. In case of early termination of the lease agreement, the company will be obliged to pay USD 371 thousand, however, termination of lease agreement is not considered by the Company.

35. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

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

	2021			2020		
In thousands of Georgian Lari	**Parent company**	**Entities under common control**	**Other related entities**	**Parent company**	**Entities under common control**	**Other related entities**
Cash and cash equivalents	9,736	-	-	23,700	-	-
Due from banks	5,000	-	-	16,383	-	-
Net investment in finance leases (effective interest rate: 15.0%-40.0%)	-	-	789	-	-	164
Loans from banks and financial institutions (contractual interest rate: 4.6%-14.5%)	11,250	-	-	14,899	-	-
Subordinated loans	2,449	71	-	2,448	135	-
Debt securities in issue	20,074	276	-	20,063	455	-
Derivative financial Instru-ments	6	0	-	1,760	-	-
Other financial assets	111	352	-	-	368	-
Prepayments	-	2,504	-	-	2,629	-
Other liabilities	-	59	-	54	-	-

34. CONTINGENCIES AND COMMITMENTS CONTINUED

The income and expense items with related parties for the year ended 31 December 2021 and 2020 were as follows:

	2021			2020		
In Georgian Lari	**Parent company**	**Entities under common control**	**Other related entities**	**Parent company**	**Entities under common control**	**Other related entities**
Interest income	-	-	-	-	-	-
Income from operating leasing	1,480	-	-	1,519	-	-
Finance income	-	-	121	-	-	48
Other income	1,260	40	-	1,921	54	-
Interest expense	3,762	259	-	5,409	191	-
Bank and other service charge	-	-	-	-	-	-
Gain from derivative financial instruments	(348)	-	-	2,009	-	-
Other expenses	86	109	-	66	111	-

Key management compensation is presented below:

	2021		2020	
In thousands of Georgian Lari	**Expenses**	**Accrued Liability**	**Expenses**	**Accrued Liability**
Short-term benefits	898	383	798	257

During the year ended 31 December 2021 and 2020 the remuneration of members of the key management, being the members of the Management Board, comprised salaries, bonuses and compensation of insurance and business trip expenses.

36. EVENTS AFTER REPORTING PERIOD

On 24 February 2022 Russia invaded Ukraine, and since then political tension in the region escalated, resulting in deterioration of overall economic environment not only in engaged countries, but in the region as well. A number of severe sanctions have been announced against Russia, resulting in many international companies to leave Russian market.

General uncertainty about the future course of events is still high. If the ongoing hostilities between Russia and Ukraine do not end in time, will have a negative impact on Georgia's main economic performance indicators, liquidity and credit risk management.

At this stage, it is not possible for the Management to predict the impact of all this uncertainty on the future operations. However, Management believes, the war in Ukraine is non-adjusting event and closely monitors the current economic environment to adjust the entity's performance accordingly where needed.

2021